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31EX

Transcript Exhibit(s)

W-01445A-04-0650

BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MARC SPITZER
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. W-01445A-04-0650
ARIZONA WATER COMPANY, AN)
ARIZONA CORPORATION, FOR)
ADJUSTMENTS TO ITS RATES AND)
CHARGES FOR UTILITY SERVICE)
FURNISHED BY ITS WESTERN GROUP)
AND FOR CERTAIN RELATED)
APPROVALS)
_____)

SURREBUTTAL

TESTIMONY

OF

RONALD E. LUDDERS

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

RECEIVED

MAY 12 2005

MAY 25, 2005

LEGAL DIV.
ARIZ. CORPORATION COMMISSION

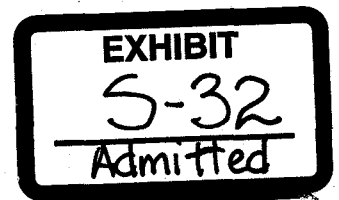


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List of Schedules following the Testimony:

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Ronald E. Ludders. I am a Public Utilities Analyst V employed by the Arizona
4 Corporation Commission ("ACC" or Commission") in the Utilities Division ("Division").
5 My business address is 1200 W. Washington Street, Phoenix, Arizona, 85007.

6
7 **Q. Are you the same Ronald E. Ludders who filed direct testimony in this case?**

8 A. Yes, I am.
9

10 **Q. What is the purpose of your surrebuttal testimony in this proceeding?**

11 A. The purpose of my surrebuttal testimony in this proceeding is to respond, on behalf of the
12 Utilities Division Staff ("Staff"), to the rebuttal testimony of various Arizona Water
13 Company ("Arizona Water" or "Company") witnesses in the areas of rate base, operating
14 income, revenue requirement, and rate design.

15
16 **Q. Did Staff attempt to address every issue raised by the Company in its rebuttal**
17 **testimony?**

18 A. No. Staff limited its discussion to certain issues as outlined below.
19

20 **Q. Does that mean Staff concurs with the Company on any issue not discussed in your**
21 **surrebuttal?**

22 A. No, not at all. Where Staff fails to respond or comment on an issue or question in this
23 surrebuttal testimony, it should not be considered to mean concurrence with the Company
24 on that issue or question, rather Staff relies on its direct testimony and continues to support
25 the Staff position.

SUMMARY OF COMPANY'S REBUTTAL TESTIMONY

Q. Please summarize the Company's rebuttal testimony.

A The Company indicated in its rebuttal testimony that it is in disagreement with Staff in the following issues;

1. Central Arizona Project ("CAP") cost recovery
2. Casa Grande condemnation
3. Working capital
4. Purchased power expenses
5. Purchased pumping power adjustor mechanism ("PPAM") and purchased water adjustor mechanism ("PWAM")
6. Rate case expense
7. Rate design

Q. Please explain how Staff organized its surrebuttal testimony.

A. Staff organized its surrebuttal testimony in the same order as reflected on the Company's major points of disagreement list above.

CENTRAL ARIZONA PROJECT ("CAP") COST RECOVERY

Q. Has Staff reviewed the Company's rebuttal testimony regarding the CAP cost recovery?

A. Yes it has.

1 **Q. What is the current status of the differences in the Company's and Staff's position**
2 **regarding the CAP cost recovery issue?**

3 A. While both parties have differing positions, Staff and the Company have agreed to meet for
4 a possible settlement agreement on this issue.

5
6 **Q. When will Staff be ready to discuss this issue?**

7 A. Staff hopes to be prepared to present an agreement, or state its position fully, by the time of
8 the hearing scheduled in this proceeding.

9
10 **CASA GRANDE CONDEMNATION**

11 **Q. The Company suggests that Staff only objects to the legal costs associated with the**
12 **condemnation and not the sale of effluent. Would you please clarify Staff's position.**

13 A. Yes. Staff objects not only to the condemnation costs but also objects to the sale of effluent
14 issue. Therefore, the removal of the \$824,374 by Staff is correct.

15
16 **Q. Did the Company raise any concerns regarding the recovery of \$824,374 in legal fees**
17 **incurred by the Company and posted to the "Intangibles Miscellaneous" account?**

18 A. Yes it did. The Company continues to insist that the legal fees should be recovered from
19 ratepayers in a non-depreciable account earning a rate of return in perpetuity. Staff believes
20 that the benefactors of the Company's legal efforts in this instance are the shareholders and
21 as such should pay the legal fees. Staff does not believe ratepayers would be harmed if the
22 condemnation was successful.
23

CASH WORKING CAPITAL

Q. Does Staff continue to recommend its use of a 37 day lag for Federal and State income tax payments in the cash working capital allowance?

A. Yes. As indicated in the summary below, Staff's recommended 37 day lag is developed using the *required* payment dates for such taxes. If the Company wishes to pay these taxes earlier than they are required, it can certainly do so. However, the negative cash flow consequences should not penalize ratepayers. We continue to support the *required* payment date methodology. The mid-point for determining the number of lead or lag days is June 30, the exact middle of the annual tax payment period.

<u>Tax Payment Date</u>	<u>Percent of Annual Liability</u>	<u>(Lead) Lag Days</u>	<u>Weighted Days</u>
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April 15 th	25.00	(77.5)	(19.38)
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June 15 th	25.00	(16.5)	(4.12)
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September 15 th	25.00	75.5	18.88
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December 15 th	<u>25.00</u>	166.5	<u>41.62</u>
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100.00	37.00 days
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Staff continues to support its \$293,804 negative adjustment to the cash working capital allowance. Staff has researched this matter and has determined that this is the correct treatment.¹

¹ See Exhibit VI-12, "Public Utility Working Capital", Dabelstein, Carl.

PURCHASED POWER EXPENSES

Q. Did Staff make any adjustments in purchased power costs for the recent increase in Arizona Public Service ("APS") tariffs?

A. No, as is the case with the Company, the complex APS tariff went into effect before it could be evaluated and included in the rate case. The Company will present their requested increase for the APS purchased power increase in its rejoinder testimony. At that time Staff will review the request.

Q. Is Staff opposed to making an adjustment to purchased power costs to account for the recently approved APS rate increase?

A. No, as long as it is done properly.

PURCHASED POWER ADJUSTOR MECHANISM AND PURCHASED WATER ADJUSTOR MECHANISM

Q. Does Staff continue to believe the purchase power adjustor mechanism and purchased water adjustor mechanism should be eliminated?

A. Yes. Although Arizona Water is the only water provider that still uses these adjustors, it continues to believe it has a need for them. The Commission disagreed with that assumption in the Eastern Group rate case by eliminating these adjustors (Decision No. 66849, dated March 19, 2004).

Q. Mr. Kennedy suggests that there is a State law mandating purchased power and purchased water adjustment mechanisms.

A. Although Mr. Kennedy presents this argument, Staff's legal counsel indicated that this law is unconstitutional. Staff's counsel will present this matter in Staff's legal brief.

1 **Q. What is the historic standard used by Staff to determine if an adjustor mechanism is**
2 **needed?**

3 A. Adjustor mechanisms have been useful in gas and electric utilities where purchased gas or
4 purchased power is generally the largest single expense and where the commodity is highly
5 volatile. Purchased pumping power and purchased water costs for Arizona Water do not
6 have these characteristics.

7
8 **Q. Do you agree with Mr. Kennedy that the most relevant comparison to determine the**
9 **significance of the purchased power and purchased water expense should be as a**
10 **percentage of total operating income?**

11 A. No. There are many factors to consider when evaluating whether an adjustor mechanism is
12 appropriate. For example, a fixed cost that represents a significant percentage of operating
13 costs is an inappropriate candidate for an adjustor mechanism. Likewise, a variable cost that
14 is only marginally volatile is an inappropriate candidate as well. So there are several factors
15 to consider when determining if an adjustor mechanism is proper.

16
17 Staff continues to support the elimination of the PPAM and PWAM for Arizona Water.
18

19 **RATE CASE EXPENSES**

20 **Q. Does Staff agree with the Company's rate case expense position?**

21 A. No. Staff's position regarding rate case expenses is that its recommendation represents a
22 reasonable amount of expense. For example, in the Company's Eastern Group rate case
23 (Decision No. 66849, dated March 19, 2004) the Commission approved rate case expenses
24 of \$250,000 for its 8 systems (\$31,250 per system). Staff believes its recommended rate
25 case expense of \$225,000 (\$45,000 per system) for this case is reasonable.

1 **RATE DESIGN**

2 **Q. Has the company utilized the inverted three-tiered rate design?**

3 A. No. The Company submitted a single rate commodity charge structure in its application and
4 continues to support such rate design.
5

6 **Q. What does Mr. Kennedy suggest be done with the rate design?**

7 A. Mr. Kennedy, in his rebuttal response states, "The best solution would be to continue the
8 Company's cost of service based rate design (single rate commodity charge) until Staff
9 completes a tiered rate design model that specifically addresses price elasticity and revenue
10 volatility to eliminate the remaining short-coming of its current proposed model."
11

12 **Q. Does Mr. Kennedy demonstrate that the Company has, in fact, experienced price**
13 **elasticity?**

14 A. No. Mr. Kennedy believes the Company's Eastern Group has experienced a 7 percent
15 reduction in per customer consumption as a result of the three-tier rate design currently in
16 effect (See Kennedy at Rt. 18 and Exhibit RJK-R4). However, Mr. Kennedy's analysis is
17 over simplified and flawed. His evaluation fails to take into account numerous other factors
18 affecting the specific water use of the customers and the time period selected for his
19 observations.
20

21 For example, during the twelve month period ending March 31, 2005, Arizona experienced
22 an unusually high level of precipitation, especially from January 1, 2005 through March 31,
23 2005. Additionally, the gallonage per customer could also have been affected by customer
24 growth.

1 Therefore, Mr. Kennedy has failed to demonstrate, that the Company's revenues are
2 negatively impacted due to implementation of an inverted three-tier rate design.

3
4 **Q. Mr. Ludders, for the passed several years the Commission has consistently authorized**
5 **three-tiered rates; to your knowledge has the Commission ever required Staff to**
6 **perform price elasticity and/or revenue volatility studies before approving such rates?**

7 A. No.

8
9 **Q. Are there other reasons an elasticity adjustment should be rejected?**

10 A. Yes. First, any change to usage is not "known and measurable". Second, correcting for any
11 future changes creates serious measuring problems. Many other variables also change in the
12 future, such as customer growth.

13
14 **Q. Has the Commission ever requested a Company submitting a single commodity charge**
15 **rate design to resubmit an inverted three-tier rate design?**

16 A. Yes, during a recent Arizona-American Water Company, Inc. ("Arizona-American") rate
17 hearing Commissioner Mundell expressed his disappointment that Arizona-American did
18 not submit an inverted three-tiered rate design and only provided one very late in the
19 proceeding.

20
21 **Q. Did the Commission approve a three-tier rate design for Arizona-American?**

22 A. Yes.

23
24 **Q. Did the Commission require either Staff or Arizona-American to perform a price**
25 **elasticity study or revenue elasticity study prior to their approval?**

1 A. No.

2

3 **Q. Has the Arizona Water Company been asked by Staff to resubmit its single commodity**
4 **rate schedule in favor of the inverted three-tiered rate design?**

5 A. Yes, during the sufficiency period Staff requested the Company resubmit its application with
6 an inverted three-tier rate design. Company witness, Mr. Kennedy declined, stating that he
7 preferred that Staff use its expertise to design an inverted three-tier rate design for the
8 Company. He also was offered Staff's assistance in helping the Company develop its own
9 inverted three-tier rate design. Mr. Kennedy said he looked forward to working with Staff
10 on this issue.

11

12 **Q. Did the Company seek Staff's input or help in developing an alternative inverted three-**
13 **tiered rate design?**

14 A. Not at any time.

15

16 **Q. Does Staff have anything else to add?**

17 A. Yes. Staff has prepared surrebuttal Schedules to reflect the positions taken herein and
18 certain other technical corrections.

19

20 **Q. Does this conclude your surrebuttal testimony Mr. Ludders?**

21 A. Yes it does.

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4

5 **AJO – SYSTEM**

6

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Arizona Water Company - Casa Grande
Docket No. W-01445A-04-0650
Test Year Ended December 31, 2003

Schedule REL-1
Surrebuttal

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	[A] COMPANY ORIGINAL COST	[B] STAFF ORIGINAL COST
1	Adjusted Rate Base	\$ 21,996,652	\$ 17,352,671
2	Adjusted Operating Income (Loss)	\$ 1,180,181	\$ 1,541,858
3	Current Rate of Return (L2 / L1)	5.37%	8.89%
4	Required Rate of Return	10.5000%	8.9000%
5	Required Operating Income (L4 * L1)	\$ 2,309,648	\$ 1,544,388
6	Operating Income Deficiency (L5 - L2)	\$ 1,129,467	\$ 2,529
7	Gross Revenue Conversion Factor	1.63245	1.63246
8	Increase In Gross Revenue (L7 * L6)	\$ 1,843,799	\$ 4,129
9	Adjusted Test Year Revenue	\$ 7,921,381	\$ 7,921,381
10	Proposed Annual Revenue (L8 + L9) Note A	\$ 9,765,180	\$ 7,925,510
11	Require Increase in Revenue (%) (L8/L9)	23.28%	0.05%

GROSS REVENUE CONVERSION FACTOR

Line
No.

Calculation of Gross Revenue Conversion Factor:

1 Recommended Revenue Increase:		
2 Billings		1.000000
3 Combined Federal and State Income Tax Rate	38.59888%	
4 Uncollectible Rate After Income Taxes	0.14374%	
5 Total Tax Rate		38.74262%
6 Gross Revenue Conversion Factor		<u>1.632456</u>

Calculation of Effective Income Tax Rate:

7 Operating Income Before Taxes (Arizona Taxable Income)	100.00000%
8 Arizona State Income Tax Rate	6.96800%
9 Federal Taxable Income (L5 - L6)	93.03200%
10 Applicable Federal Income Tax Rate (Line 32)	34.00000%
11 Effective Federal Income Tax Rate (L7 x L8)	31.63088%
12 Combined Federal and State Income Tax Rate (L6 +L9)	<u>38.59888%</u>

Calculation of Uncollectible Rate After Income Taxes:

13 Uncollectible Rate		0.23410%
14 Combined Federal and State Income Tax Rate	38.59888%	
15 1 minus Combined Federal and State Income Tax Rate		61.40112%
16 Uncollectible Rate After Income Taxes		<u>0.14374%</u>

Revenue Reconciliation:

17 Recommended Increase in Revenue (from REL-1, L8)	\$ 4,129	
18 Uncollectible Rate	0.234100%	
19 Required Increase in Revenue to Provide for Uncollectibles		\$ 10
20 Recommended Increase in Revenue (from REL-1,L8)	\$ 4,129	
21 Required Increase in Revenue to Provide for Uncollectibles	10	
22 Incremental Taxable Income	\$ 4,119	
23 Combined Federal and State Income Tax Rate	38.59888%	
24 Required Increase in Revenue to Provide for Income Taxes		1,590
25 Required Operating Income	\$ 1,544,388	
26 Adjusted Test Year Operating Income (Loss)	1,541,858	
27 Required Increase in Operating Income		2,529
28 Total Required Increase In Revenue	\$ 4,129	

Calculation of Income Tax:

	Test Year	STAFF Recommended
29 Revenue	\$ 7,921,381	\$ 7,925,510
30 Less: Operating Expenses Excluding Income Taxes	\$ 5,650,243	\$ 5,650,253
31 Less: Synchronized Interest	\$ 381,759	\$ 381,759
32 Arizona Taxable Income	\$ 1,889,379	\$ 1,893,498
33 Arizona State Income Tax Rate	6.968%	6.968%
34 Arizona Income Tax	\$ 131,652	\$ 131,939
35 Federal Taxable Income	\$ 1,757,727	\$ 1,761,559
36 Federal Income Tax @ 34%	\$ 597,627	\$ 598,930
37 Combined Federal and State Income Tax	<u>\$ 729,279</u>	<u>\$ 730,869</u>
		\$ 1,590

Calculation of Interest Synchronization:

38 Rate Base	\$ 17,352,671
39 Weighted Average Cost of Debt	2.200%
40 Synchronized Interest	<u>\$ 381,759</u>

RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 51,556,199	\$ 47,206,022
2	Less: Accumulated Depreciation	(12,072,217)	(12,072,217)
3	Net Plant in Service	<u>\$ 39,483,982</u> x	<u>\$ 35,133,805</u>
<u>LESS:</u>			
4	Advances in Aid of Construction (AIAC)	(8,891,444)	(8,891,444)
5	Contributions in Aid of Construction (CIAC)	\$ (7,754,812)	\$ (7,754,812)
6	Less: Accumulated Amortization	1,348,820	1,348,820
7	Net CIAC	<u>(6,405,992)</u>	<u>(6,405,992)</u>
8	Total Advances and Contributions	(15,297,436)	(15,297,436)
9	Customer Deposits	-	-
10	Meter Advances	-	-
11	Deferred Income Tax Credits	(3,387,966)	(3,387,966)
<u>ADD:</u>			
12	Working Capital	250,254	(43,550) x
13	Phoenix Office Allocation	930,536	930,536
14	Meter Shop Allocation	17,282	17,282
15	-	-	-
16	-	-	-
17	-	-	-
18	Total Rate Base	<u>\$ 21,996,652</u>	<u>\$ 17,352,671</u>

SUMMARY OF RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ No.1	[C] ADJ No. 2	[D] ADJ No. 3	[E] STAFF ADJUSTED
<u>PLANT IN SERVICE:</u>						
1	Organization	\$ -	\$ -	\$ -	\$ -	\$ -
2	Franchises	3,018	-	-	-	3,018
3	Other Intangibles	824,374	(824,374)	-	-	-
4	Water Rights	67,192	-	-	-	67,192
5	Other Source of Supply Land	93,865	-	-	-	93,865
6	Wells	2,711,417	-	-	-	2,711,417
7	Pumping Plant Land	6,013	-	-	-	6,013
8	Pumping Plant Structures & Improvements	91,607	-	-	-	91,607
9	Electric Pumping Equipment	2,394,587	-	-	-	2,394,587
10	Gas Engine Equipment	-	-	-	-	-
11	Water Treatment Land	-	-	-	-	-
12	Water Treatment Structures & Improvmnts	70,538	-	-	-	70,538
13	Water Treatment Equipment	133,666	-	-	-	133,666
14	Transmission and Distribution Land	64,886	-	-	-	64,886
15	Storage Tanks	1,699,748	-	-	-	1,699,748
16	Transmission and Distribution Mains	25,581,627	-	-	-	25,581,627
17	Fire Sprinkler Taps	849,998	-	-	-	849,998
18	Services	8,672,173	-	-	-	8,672,173
19	Meters	1,205,217	-	-	-	1,205,217
20	Hydrants	2,390,623	-	-	-	2,390,623
21	General Plant Land	8,772	-	-	-	8,772
22	General Plant Structures	368,806	-	-	-	368,806
23	Leasehold Improvements	-	-	-	-	-
24	Office Furniture and Improvements	161,506	-	-	-	161,506
25	Warehouse Equipment	12,913	-	-	-	12,913
26	Tools, Shop and Garage Equipment	130,579	-	-	-	130,579
27	Laboratory Equipment	5,253	-	-	-	5,253
28	Power Operated Equipment	59,810	-	-	-	59,810
29	Communication Equipment	376,139	-	-	-	376,139
30	Miscellaneous Equipment	46,069	-	-	-	46,069
31	Total Plant in Service - Actual	48,030,396 x	(824,374)	-	-	47,206,022
32	CAP Pro-forma Adjustment - Post TY Plant	3,525,803	-	(3,525,803)	-	-
33	Accumulated Depreciation, Retired Plant	-	-	-	-	-
34	Total Plant in Service - Adjusted	\$ 51,556,199 x	\$ (824,374)	\$ (3,525,803)	\$ -	\$ 47,206,022
35	Less: Accumulated Depreciation - Actual	\$ (12,087,978) x	-	-	-	(12,087,978)
36	Less: Accumulated Depreciation - Post TY	15,761 x	-	-	-	15,761
37	Less: Accumulated Depreciation - 12 Mos TY	-	-	-	-	-
38	Less: Accumulated Depreciation - Retired Plant	-	-	-	-	-
39	Total Accumulated Depreciation - Adjusted	\$ (12,072,217) x	\$ -	\$ -	\$ -	\$ (12,072,217)
40	Plus: Construction Work In Progress	-	-	-	-	-
41	Net Plant in Service	<u>\$ 39,483,982 x</u>	<u>\$ (824,374)</u>	<u>\$ (3,525,803)</u>	<u>\$ -</u>	<u>\$ 35,133,805</u>
<u>LESS:</u>						
42	Advances in Aid of Construction (AIAC)	\$ (8,891,444) x	\$ -	\$ -	\$ -	(8,891,444)
43	Contributions in Aid of Construction (CIAC)	(7,754,812) x	-	-	-	(7,754,812)
44	Less: Accumulated Amortization	1,348,820 x	-	-	-	1,348,820
45	Net CIAC (L25 - L26)	(6,405,992) x	-	-	-	(6,405,992)
46	Total Advances and Contributions	(15,297,436) x	-	-	-	(15,297,436)
47	Customer Deposits	-	-	-	-	-
48	Meter Advances	-	-	-	-	-
49	Deferred Income Tax Credits	(3,387,966) x	-	-	-	(3,387,966)
<u>ADD:</u>						
50	Working Capital Allowance	250,254 x	-	-	(293,804)	(43,550)
51	Phoenix Office Allocation	930,536 x	-	-	-	930,536
52	Meter Shop Allocation	17,282 x	-	-	-	17,282
53	Projected Capital Expenditures	-	-	-	-	-
54	Deferred Debits	-	-	-	-	-
55	Other Additions	-	-	-	-	-
56	Total Rate Base	<u>\$ 21,996,652</u>	<u>\$ (824,374)</u>	<u>\$ (3,525,803)</u>	<u>\$ (293,804)</u>	<u>\$ 17,352,671</u>

OPERATING INCOME - TEST YEAR AND STAFF PROPOSED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
<u>REVENUES:</u>						
1	Total Operating Revenues	\$ 7,921,381	\$ -	\$ 7,921,381	\$ 4,129	\$ 7,925,510
<u>EXPENSES:</u>						
Source of Supply Expenses:						
2	Purchased Water	\$ 498,013	\$ (159,449)	\$ 338,564	\$ -	\$ 338,564
3	Other	45,935	-	45,935	-	45,935
Pumping Expenses:						
4	Purchased Power	810,343	1,467	811,810	-	811,810
5	Purchased Gas	-	-	-	-	-
6	Other	286,696	-	286,696	-	286,696
7	Water Treatment Expenses	187,995	-	187,995	-	187,995
8	Transmission and Distribution Expenses	786,616	-	786,616	-	786,616
9	Customer Account Expenses	604,959	-	604,959	10	604,969
10	Sales Expenses	2,962	-	2,962	-	2,962
11	Administrative and General Expenses	952,718	(20,495)	932,223	-	932,223
12	Total Operation and Maintenance	\$ 4,176,237	(178,477)	3,997,760	10	3,997,770
13	Depreciation and Amortization	1,368,007	(352,580)	1,015,427	-	1,015,427
15	Ad Valorem (Property)	612,639	(52,334)	560,305	-	560,305
Taxes:						
14	Federal & State Income Tax	507,566	221,713	729,279	1,590	730,869
16	Other	76,751	-	76,751	-	76,751
17	Total Operating Expenses	\$ 6,741,200	\$ (361,677)	\$ 6,379,523	\$ 1,600	\$ 6,381,122
18	Operating Income (Loss)	\$ 1,180,181	\$ 361,677	\$ 1,541,858	\$ 2,529	\$ 1,544,388

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1	[C] ADJ #2	[D] ADJ #3	[E] ADJ #4	[F] ADJ #5	[G] ADJ #6	[H] ADJ #7	[I] ADJ #8	[J] STAFF ADJUSTED
REVENUES:											
1	Total Operating Revenues	\$ 7,921,381	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,921,381
EXPENSES:											
Source of Supply Expenses:											
2	Purchased Water	\$ 498,013	\$(159,449)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 338,564
3	Other	45,935	-	-	-	-	-	-	-	-	45,935
Pumping Expenses:											
4	Purchased Power	810,343	-	1,467	-	-	-	-	-	-	811,810
5	Purchased Gas	-	-	-	-	-	-	-	-	-	-
6	Other	286,696	-	-	-	-	-	-	-	-	286,696
7	Water Treatment Expenses	187,995	-	-	-	-	-	-	-	-	187,995
8	Transmission and Distribution Expenses	786,616	-	-	-	-	-	-	-	-	786,616
9	Customer Account Expenses	604,959	-	-	-	-	-	-	-	-	604,959
10	Sales Expenses	2,962	-	-	-	-	-	-	-	-	2,962
11	Administrative and General Expenses	952,718	-	-	(6,954)	(13,541)	-	-	-	-	932,223
12	Total Operation and Maintenance	4,176,237	(159,449)	1,467	(6,954)	(13,541)	-	-	-	-	3,997,760
13	Depreciation and Amortization	1,368,007	-	-	-	-	(352,580)	-	-	-	1,015,427
15	Ad Valorem (Property)	612,639	-	-	-	-	-	(52,334)	-	-	560,305
Taxes:											
14	Federal & State Income Tax	507,566	-	-	-	-	-	-	158,607	63,106	729,279
16	Other	76,751	-	-	-	-	-	-	-	-	76,751
17	Total Operating Expenses	\$ 6,741,200	\$(159,449)	\$ 1,467	\$ (6,954)	\$ (13,541)	\$ (352,580)	\$ (52,334)	\$ 158,607	\$ 63,106	\$ 6,379,523
18	Operating Income (Loss)	\$ 1,180,181 x	\$ 159,449	\$ (1,467)	\$ 6,954	\$ 13,541	\$ 352,580	\$ 52,334	\$ (158,607)	\$ (63,106)	\$ 1,541,858

Arizona Water Company - Casa Grande
Docket No. W-01445A-04-0650
Test Year Ended December 31, 2003

Schedule REL-14
Surrebuttal

OPERATING INCOME ADJUSTMENT NO. 10 - DEPRECIATION EXPENSE INCL. POST-TEST YEAR PLANT

LINE NO.	DESCRIPTION	[A]		[B]		[C]	
		COMPANY AS FILED		STAFF ADJUSTMENT		STAFF AS ADJUSTED	
1	CAP Amortization	\$	1,368,007	\$	(352,580)	\$	1,015,427
					-		-
		\$	1,368,007	\$	(352,580)	\$	1,015,427

OPERATING INCOME ADJUSTMENT NO. 5 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENT	(C) STAFF AS ADJUSTMENT
1	2001 Annual Gross Revenues			\$ 6,924,261
2	2002 Annual Gross Revenues			\$ 7,620,542
3	2003 Annual Gross Revenues			\$ 7,921,381
4	Plus Staff's Recommended Increase			\$ 4,129
5	Subtotal (Lines 1 + 2 + 3 + 4)			\$ 22,470,313
6	Three Year Average Calculation			3
7	Three Year Average (Line 5 / Line 6)			\$ 7,490,104
8	Department of Revenue Multiplier			2
9	Revenue Base Value (Line 7 x Line 8)			\$ 14,980,209
10	Plus: 10% of 2001 CWIP			14,715
11	Less: Net Book Value of Leased Vehicles (See Note A Below)			\$ 201,384
12	Full Cash Value (Line 9 + Line 10 - Line 11)			\$ 14,793,540
13	Assessment Ratio			0.25
14	Assessed Value (Line 12 x Line 13)			\$ 3,698,385
15	Composite Property Tax Rate (See Note B Below)			0.1515
16	Staff Proposed Property Tax Expense (Line 14 x Line 15)	\$ 612,639	\$ (52,334)	\$ 560,305

Note A: Net Book Value of Licensed Vehicles provided by Arizona Water.

Note B: Property tax rate provided by Arizona Dept. of Revenue.

Arizona Water Company - Casa Grande
Docket No. W-01445A-04-0650
Test Year Ended December 31, 2003

Schedule REL- 15
Surrebuttal

OPERATING INCOME ADJUSTMENT NO. 6 and 7 - INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	(A)	(B)	(C)
		COMPANY AS FILED	STAFF ADJUSTMENT	STAFF AS ADJUSTED
1	Federal Income Taxes	\$ 439,020	\$ 158,607	\$ 597,627
2	State Income Taxes	68,546	63,106	131,652
3	Total Income Taxes	<u>\$ 507,566</u>	<u>\$ 221,713</u>	<u>\$ 729,279</u>

RATE DESIGN

Monthly Usage Charge:

5/8" x 3/4" Meter
1" Meter
2" Meter
3" Meter
4" Meter
6" Meter
8" Meter
10" Meter

Minimum Monthly Usage Charge			
Present Rates	---Proposed Rates---		
	Company	Staff	
\$ 10.36	\$ 13.03	\$ 10.50	
\$ 24.86	\$ 31.92	\$ 25.00	
\$ 62.15	\$ 91.21	\$ 70.00	
\$ 103.58	\$ 162.88	\$ 125.00	
\$ 207.16	\$ 293.18	\$ 240.00	
\$ 362.53	\$ 553.78	\$ 375.00	
\$ 362.53	\$ 749.23	\$ 600.00	
\$ 673.27	\$ 1,687.41	\$ 837.19	

Gallons Included In Minimum Charge:

5/8" x 3/4" Meter
1" Meter
2" Meter
3" Meter
4" Meter
6" Meter
8" Meter
10" Meter

Fire Hydrants Used For Construction Water

1,000	0	0
1,000	0	0
1,000	0	0
1,000	0	0
1,000	0	0
1,000	0	0
1,000	0	0
1,000	0	0
1,000	0	0

Commodity Rates : 5/8 x 3/4 Inch Meter

Per 1,000 Gallons (In Excess of Minimum)
Per 1,000 Gallons for 0 to 3,000 Gallons
Per 1,000 Gallons for 3,001 to 10,000 Gallons
Per 1,000 Gallons for Gallons in Excess of 10,000

\$ 1.5590	N/A	N/A
\$ 1.5590	\$ 1.8250	\$ 1.0000
\$ 1.5590	\$ 1.8250	\$ 1.1500
\$ 1.5590	\$ 1.8250	\$ 2.0000

Commodity Rates : 1 Inch Meter

Per 1,000 Gallons (In Excess of Minimum)
Per 1,000 Gallons for 0 to 30,000 Gallons
Per 1,000 Gallons for Gallons in Excess of 30,000

\$ 1.5590	N/A	N/A
\$ 1.5590	\$ 1.8250	\$ 1.1500
\$ 1.5590	\$ 1.8250	\$ 2.0000

Commodity Rates : 2 Inch Meter

Per 1,000 Gallons (In Excess of Minimum)
Per 1,000 Gallons for 0 to 150,000 Gallons
Per 1,000 Gallons for Gallons in Excess of 150,000

\$ 1.5590	N/A	N/A
\$ 1.5590	\$ 1.8250	\$ 1.1500
\$ 1.5590	\$ 1.8250	\$ 2.0000

Commodity Rates : 3 Inch Meter

Per 1,000 Gallons (In Excess of Minimum)
Per 1,000 Gallons for 0 to 300,000 Gallons
Per 1,000 Gallons for Gallons in Excess of 300,000

\$ 1.5590	N/A	N/A
\$ 1.5590	\$ 1.8250	\$ 1.1500
\$ 1.5590	\$ 1.8250	\$ 2.0000

**RATE DESIGN
CONTINUED**

Commodity Rates : 4 Inch Meter

Per 1,000 Gallons (In Excess of Minimum)
Per 1,000 Gallons for 0 to 1,000,000 Gallons
Per 1,000 Gallons for Gallons in Excess of 1,000,000

Present Rates	---Proposed Rates---	
	Company	Staff
\$ 1.5590	N/A	N/A
\$ 1.5590	\$ 1.8250	\$ 1.1500
\$ 1.5590	\$ 1.8250	\$ 2.0000

Commodity Rates : 6 and 8 Inch Meter

Per 1,000 Gallons (In Excess of Minimum)
Per 1,000 Gallons for 0 to 2,000,000 Gallons
Per 1,000 Gallons for Gallons in Excess of 2,000,000

\$ 1.5590	N/A	N/A
\$ 1.5590	\$ 1.8250	\$ 1.1500
\$ 1.5590	\$ 1.8250	\$ 2.0000

Service Line and Meter Installation Charge:

5/8" x 3/4" Meter	(a)	(a)	(a)
1" Meter	(a)	(a)	(a)
2" Meter	(b)	(b)	(b)
3" Meter	(b)	(b)	(b)
4" Meter	(b)	(b)	(b)
6" Meter	(b)	(b)	(b)

(a) No charge for 5/8" and 1" if on existing pipelines. Full cost for 5/8" and 1" if on new pipelines.

(b) Full cost for 2" and larger if on existing or new pipelines.

Service Charges:

Establishment	\$ 16.00	\$ 16.00	\$ 16.00
Guarantee Deposit	(c)	(c)	(c)
Reconnection for Delinquency (per disconnection)	\$ 16.00	\$ 16.00	\$ 16.00
Re-establishment	(d)	(d)	(d)
Service Call Out (After Regular Working Hours Only)	\$ 35.00	\$ 35.00	\$ 35.00
Returned Check Charge	\$ 10.00	\$ 25.00	\$ 25.00
Meter Re-read (After Regular Working Hours Only)	\$ 35.00	\$ 35.00	\$ 35.00
Meter Test	\$ 50.00	\$ 50.00	\$ 50.00
Late Charge	N/A	(e)	(e)

(c) Per Commission Rule A.A.C. R14-2-403B

(d) Eight (8) times the customer's monthly minimum charge, or payment of the minimums since disconnection, whichever is less.

N/A No current tariff.

(e) 1.5 percent after 15 days

Arizona Water Company - Stanfield
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Test Year Ended December 31, 2003

Schedule REL-1
Surrebuttal

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	[A] COMPANY ORIGINAL COST	[B] STAFF ORIGINAL COST
1	Adjusted Rate Base	\$ 314,131 x	\$ 310,269
2	Adjusted Operating Income (Loss)	\$ 25,878	\$ 24,125
3	Current Rate of Return (L2 / L1)	8.24%	7.78%
4	Required Rate of Return	10.5000% x	8.9000%
5	Required Operating Income (L4 * L1)	\$ 32,984	\$ 27,614
6	Operating Income Deficiency (L5 - L2)	\$ 7,106	\$ 3,489
7	Gross Revenue Conversion Factor	1.63245 x	1.63246
8	Increase In Gross Revenue (L7 * L6)	\$ 11,600	\$ 5,696
9	Adjusted Test Year Revenue	\$ 131,003	\$ 131,003
10	Proposed Annual Revenue (L8 + L9) Note A	\$ 142,603	\$ 136,699
11	Require Increase in Revenue (%) (L8/L9)	8.85%	4.35%

GROSS REVENUE CONVERSION FACTOR

Line
No.

Calculation of Gross Revenue Conversion Factor:

1	Recommended Revenue Increase:	
2	Billings	1.000000
3	Combined Federal and State Income Tax Rate	38.59888%
4	Uncollectible Rate After Income Taxes	0.14374%
5	Total Tax Rate	38.74262%
6	Gross Revenue Conversion Factor	<u>1.632456</u>

Calculation of Effective Income Tax Rate:

7	Operating Income Before Taxes (Arizona Taxable Income)	100.00000%
8	Arizona State Income Tax Rate	6.96800%
9	Federal Taxable Income (L5 - L6)	93.03200%
10	Applicable Federal Income Tax Rate (Line 32)	34.00000%
11	Effective Federal Income Tax Rate (L7 x L8)	31.63088%
12	Combined Federal and State Income Tax Rate (L6 +L9)	<u>38.59888%</u>

Calculation of Uncollectible Rate After Income Taxes:

13	Uncollectible Rate	0.23410%
14	Combined Federal and State Income Tax Rate	38.59888%
15	1 minus Combined Federal and State Income Tax Rate	61.40112%
16	Uncollectible Rate After Income Taxes	<u>0.14374%</u>

Revenue Reconciliation:

17	Recommended Increase in Revenue (from REL-1, L8)	\$ 5,696
18	Uncollectible Rate	0.234100%
19	Required Increase in Revenue to Provide for Uncollectibles	\$ 13
20	Recommended Increase in Revenue (from REL-1,L8)	\$ 5,696
21	Required Increase in Revenue to Provide for Uncollectibles	13
22	Incremental Taxable Income	\$ 5,682
23	Combined Federal and State Income Tax Rate	38.59888%
24	Required Increase in Revenue to Provide for Income Taxes	2,193
25	Required Operating Income	\$ 27,614
26	Adjusted Test Year Operating Income (Loss)	24,125
27	Required Increase in Operating Income	3,489
28	Total Required Increase In Revenue	<u>\$ 5,696</u>

Calculation of Income Tax:

	Test Year	STAFF Recommended
29	Revenue	\$ 131,003
30	Less: Operating Expenses Excluding Income Taxes	\$ 96,003
31	Less: Synchronized Interest	\$ 6,826
32	Arizona Taxable Income	\$ 28,174
33	Arizona State Income Tax Rate	6.968%
34	Arizona Income Tax	\$ 1,963
35	Federal Taxable Income	\$ 26,211
36	Federal Income Tax @ 34%	\$ 8,912
37	Combined Federal and State Income Tax	<u>\$ 10,875</u>
		\$ 2,193

Calculation of Interest Synchronization:

38	Rate Base	\$ 310,269
39	Weighted Average Cost of Debt	2.200%
40	Synchronized Interest	<u>\$ 6,826</u>

RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 602,560	\$ 602,560
2	Less: Accumulated Depreciation	(195,716)	(195,716)
3	Net Plant in Service	<u>\$ 406,844</u> x	<u>\$ 406,844</u>
<u>LESS:</u>			
4	Advances in Aid of Construction (AIAC)	-	-
5	Contributions in Aid of Construction (CIAC)	\$ (49,164)	\$ (49,164)
6	Less: Accumulated Amortization	7,813	7,813
7	Net CIAC	<u>(41,351)</u>	<u>(41,351)</u>
8	Total Advances and Contributions	(41,351)	(41,351)
9	Customer Deposits	-	-
10	Meter Advances	-	-
11	Deferred Income Tax Credits	(62,528) x	(62,528)
<u>ADD:</u>			
12	Working Capital	(3,029) x	(6,891)
13	Phoenix Office Allocation	13,936 x	13,936
14	Meter Shop Allocation	259 x	259
15		-	-
16		-	-
17		-	-
18	Total Rate Base	<u>\$ 314,131</u> x	<u>\$ 310,269</u>

SUMMARY OF RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ No.1	[C] STAFF ADJUSTED
<u>PLANT IN SERVICE:</u>				
1	Organization	\$ -	\$ -	\$ -
2	Franchises	-	-	-
3	Other Intangibles	-	-	-
4	Water Rights	1,128	-	1,128
5	Other Source of Supply Land	600	-	600
6	Wells	106,975	-	106,975
7	Pumping Plant Land	200	-	200
8	Pumping Plant Structures & Improvements	1,243	-	1,243
9	Electric Pumping Equipment	190,368	-	190,368
10	Gas Engine Equipment	-	-	-
11	Water Treatment Land	-	-	-
12	Water Treatment Structures & Improvmnts	6,778	-	6,778
13	Water Treatment Equipment	13,763	-	13,763
14	Transmission and Distribution Land	-	-	-
15	Storage Tanks	40,876	-	40,876
16	Transmission and Distribution Mains	99,139	-	99,139
17	Fire Sprinkler Taps	268	-	268
18	Services	35,888	-	35,888
19	Meters	17,035	-	17,035
20	Hydrants	9,243	-	9,243
21	General Plant Land	-	-	-
22	General Plant Structures	1,312	-	1,312
23	Leasehold Improvements	-	-	-
24	Office Furniture and Improvements	-	-	-
25	Warehouse Equipment	-	-	-
26	Tools, Shop and Garage Equipment	534	-	534
27	Laboratory Equipment	-	-	-
28	Power Operated Equipment	-	-	-
29	Communication Equipment	76,676	-	76,676
30	Miscellaneous Equipment	534	-	534
31	Total Plant in Service - Actual	602,560 x	-	602,560
32	Pro-forma Adjustment - Post TY Plant	-	-	-
33	Accumulated Depreciation, Retired Plant	-	-	-
34	Total Plant in Service - Adjusted	\$ 602,560 x	\$ -	\$ 602,560
35	Less: Accumulated Depreciation - Actual	\$ (195,716) x	-	(195,716)
36	Less: Accumulated Depreciation - Post TY	-	-	-
37	Less: Accumulated Depreciation - 12 Mos TY	-	-	-
38	Less: Accumulated Depreciation - Retired Plant	-	-	-
39	Total Accumulated Depreciation - Adjusted	\$ (195,716) x	\$ -	\$ (195,716)
40	Plus: Construction Work In Progress	-	-	-
41	Net Plant in Service	\$ 406,844 x	\$ -	\$ 406,844
<u>LESS:</u>				
42	Advances in Aid of Construction (AIAC)	\$ - x	\$ -	-
43	Contributions in Aid of Construction (CIAC)	(49,164) x	-	(49,164)
44	Less: Accumulated Amortization	7,813 x	-	7,813
45	Net CIAC (L25 - L26)	(41,351) x	-	(41,351)
46	Total Advances and Contributions	(41,351) x	-	(41,351)
47	Customer Deposits	-	-	-
48	Meter Advances	-	-	-
49	Deferred Income Tax Credits	(62,528) x	-	(62,528)
<u>ADD:</u>				
50	Working Capital Allowance	(3,029) x	(3,862)	(6,891)
51	Phoenix Office Allocation	13,936 x	-	13,936
52	Meter Shop Allocation	259 x	-	259
53	Projected Capital Expenditures	-	-	-
54	Deferred Debits	-	-	-
55	Other Additions	-	-	-
56	Total Rate Base	\$ 314,131	\$ (3,862)	\$ 310,269

OPERATING INCOME - TEST YEAR AND STAFF PROPOSED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
<u>REVENUES:</u>						
1	Total Operating Revenues	\$ 131,003	\$ -	\$ 131,003	\$ 5,696	\$ 136,699
<u>EXPENSES:</u>						
	Source of Supply Expenses:					
2	Purchased Water	\$ -	\$ -	\$ -	\$ -	\$ -
3	Other	396	-	396	-	396
	Pumping Expenses:					
4	Purchased Power	17,409	-	17,409	-	17,409
5	Purchased Gas	-	-	-	-	-
6	Other	4,120	-	4,120	-	4,120
7	Water Treatment Expenses	430	-	430	-	430
8	Transmission and Distribution Expenses	12,240	-	12,240	-	12,240
9	Customer Account Expenses	8,604	-	8,604	13	8,617
10	Sales Expenses	44	-	44	-	44
11	Administrative and General Expenses	14,451	(150)	14,301	-	14,301
12	Total Operation and Maintenance	\$ 57,694	(150)	57,544	13	57,558
13	Depreciation and Amortization	24,713	-	24,713	-	24,713
15	Ad Valorem (Property)	13,290	(698)	12,592	-	12,592
	Taxes:					
14	Federal & State Income Tax	8,274	2,601	10,875	2,193	13,068
16	Other	1,154	-	1,154	-	1,154
17	Total Operating Expenses	\$ 105,125	\$ 1,753	\$ 106,878	\$ 2,207	\$ 109,085
18	Operating Income (Loss)	\$ 25,878	\$ (1,753)	\$ 24,125	\$ 3,489	\$ 27,614

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1	[C] ADJ #2	[D] ADJ #3	[E] ADJ #4	[F] ADJ #5	[G] STAFF ADJUSTED
REVENUES:								
1	Total Operating Revenues	\$ 131,003	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 131,003
EXPENSES:								
Source of Supply Expenses:								
2	Purchased Water	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3	Other	396	-	-	-	-	-	396
Pumping Expenses:								
4	Purchased Power	17,409	-	-	-	-	-	17,409
5	Purchased Gas	-	-	-	-	-	-	-
6	Other	4,120	-	-	-	-	-	4,120
7	Water Treatment Expenses	430	-	-	-	-	-	430
8	Transmission and Distribution Expenses	12,240	-	-	-	-	-	12,240
9	Customer Account Expenses	8,604	-	-	-	-	-	8,604
10	Sales Expenses	44	-	-	-	-	-	44
11	Administrative and General Expenses	14,451	(104)	(46)	-	-	-	14,301
12	Total Operation and Maintenance	57,694	(104)	(46)	-	-	-	57,544
13	Depreciation and Amortization	24,713	-	-	-	-	-	24,713
15	Ad Valorem (Property)	13,290	-	-	(698)	-	-	12,592
Taxes:								
14	Federal & State Income Tax	8,274	-	-	-	1,691	910	10,875
16	Other	1,154	-	-	-	-	-	1,154
17	Total Operating Expenses	\$ 105,125 x	\$ (104)	\$ (46)	\$ (698)	\$ 1,691	\$ 910	\$ 106,878
18	Operating Income (Loss)	\$ 25,878	\$ 104	\$ 46	\$ 698	\$ (1,691)	\$ (910)	\$ 24,125
			Rate Case	Charity	Prop Tax	Fed Tax	State Tax	

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Schedule REL- 10
Surrebuttal

OPERATING INCOME ADJUSTMENT NO. 3 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENT	(C) STAFF AS ADJUSTMENT
1	2001 Annual Gross Revenues			\$ 127,255
2	2002 Annual Gross Revenues			\$ 132,766
3	2003 Annual Gross Revenues			\$ 131,003
4	Plus Staff's Recommended Increase			\$ 5,696
5	Subtotal (Lines 1 + 2 + 3 + 4)			\$ 396,720
6	Three Year Average Calculation			3
7	Three Year Average (Line 5 / Line 6)			\$ 132,240
8	Department of Revenue Multiplier			2
9	Revenue Base Value (Line 7 x Line 8)			\$ 264,480
10	Plus: 10% of 2001 CWIP			1,000
11	Less: Net Book Value of Leased Vehicles (See Note A Below)			\$ 242
12	Full Cash Value (Line 9 + Line 10 - Line 11)			\$ 265,238
13	Assessment Ratio			0.25
14	Assessed Value (Line 12 x Line 13)			\$ 66,310
15	Composite Property Tax Rate (See Note B Below)			0.1899
16	Staff Proposed Property Tax Expense (Line 14 x Line 15)	\$ 13,290	\$ (698)	\$ 12,592

Note A: Net Book Value of Licensed Vehicles provided by Arizona Water.

Note B: Property tax rate provided by Arizona Dept. of Revenue.

Arizona Water Company - Stanfield
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Schedule REL- 11
Surrebuttal

OPERATING INCOME ADJUSTMENT NO. 4 and 5 - INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	(A)	(B)	(C)
		COMPANY AS FILED	STAFF ADJUSTMENT	STAFF AS ADJUSTED
1	Federal Income Taxes	\$ 7,221	\$ 1,691	\$ 8,912
2	State Income Taxes	1,053	910	1,963
3	Total Income Taxes	<u>\$ 8,274</u>	<u>\$ 2,601</u>	<u>\$ 10,875</u>

RATE DESIGN

Monthly Usage Charge:

	Minimum Monthly Usage Charge		
	Present Rates	---Proposed Rates---	
		Company	Staff
5/8" x 3/4" Meter	\$ 14.50	\$ 15.95	\$ 15.00
1" Meter	\$ 36.25	\$ 39.88	\$ 43.00
2" Meter	\$ 116.01	\$ 127.60	\$ 133.00
3" Meter	\$ 155.37	\$ 250.63	\$ 220.51
4" Meter	\$ 207.16	\$ 384.36	\$ 286.45
6" Meter	\$ 492.01	\$ 818.64	\$ 335.79
8" Meter	\$ 621.48	\$ 1,203.00	\$ 625.36
10" Meter	\$ 673.27	\$ 1,687.41	\$ 837.19

Gallons Included In Minimum Charge:

5/8" x 3/4" Meter	1,000	0	0
1" Meter	1,000	0	0
2" Meter	1,000	0	0
3" Meter	1,000	0	0
4" Meter	1,000	0	0
6" Meter	1,000	0	0
8" Meter	1,000	0	0
10" Meter	1,000	0	0
Fire Hydrants Used For Construction Water	1,000	0	0

Commodity Rates : 5/8 x 3/4 Meter

Per 1,000 Gallons (In Excess of Minimum)	\$ 3.0140	N/A	N/A
Per 1,000 Gallons for 0 to 3,000 Gallons	\$ 3.0140	\$ 3.0160	\$ 2.0000
Per 1,000 Gallons for 3,001 to 10,000 Gallons	\$ 3.0140	\$ 3.0160	\$ 2.8000
Per 1,000 Gallons for Gallons in Excess of 10,000	\$ 3.0140	\$ 3.0160	\$ 3.6000

Commodity Rates : 1 Inch Meter

Per 1,000 Gallons (In Excess of Minimum)	\$ 3.0140	N/A	N/A
Per 1,000 Gallons for 0 to 30,000 Gallons	\$ 3.0140	\$ 3.0160	\$ 2.8000
Per 1,000 Gallons for Gallons in Excess of 30,000	\$ 3.0140	\$ 3.0160	\$ 3.6000

Commodity Rates : 2 Inch Meter

Per 1,000 Gallons (In Excess of Minimum)	\$ 3.0140	N/A	N/A
Per 1,000 Gallons for 0 to 50,000 Gallons	\$ 3.0140	\$ 3.0160	\$ 2.8000
Per 1,000 Gallons for Gallons in Excess of 50,000	\$ 3.0140	\$ 3.0160	\$ 3.6000

Service Line and Meter Installation Charge:

5/8" x 3/4" Meter	(a)	(a)	(a)
1" Meter	(a)	(a)	(a)
2" Meter	(b)	(b)	(b)
3" Meter	(b)	(b)	(b)
4" Meter	(b)	(b)	(b)
6" Meter	(b)	(b)	(b)

(a) No charge for 5/8" and 1" if on existing pipelines. Full cost for 5/8" and 1" if on new pipelines.

(b) Full cost for 2" and larger if on existing or new pipelines.

**RATE DESIGN
CONTINUED**

Service Charges:

	Present Rates	---Proposed Rates---	
		Company	Staff
Establishment	\$ 16.00	\$ 16.00	\$ 16.00
Guarantee Deposit	(c)	(c)	(c)
Reconnection for Delinquency (per disconnection)	\$ 16.00	\$ 16.00	\$ 16.00
Re-establishment	(d)	(d)	(d)
Service Call Out (After Regular Working Hours Only)	\$ 35.00	\$ 35.00	\$ 35.00
Returned Check Charge	\$ 10.00	\$ 25.00	\$ 25.00
Meter Re-read (After Regular Working Hours Only)	\$ 35.00	\$ 35.00	\$ 35.00
Meter Test	\$ 50.00	\$ 50.00	\$ 50.00
Late Charge	N/A	(e)	(e)

(c) Per Commission Rule A.A.C. R14-2-403B

(d) Eight (8) times the customer's monthly minimum charge,
or payment of the minimums since disconnection, whichever is less.

N/A No current tariff.

(e) 1.5 percent after 15 days

Arizona Water Company - White Tank
Docket No. W-01445A-04-0650
Test Year Ended December 31, 2003

Schedule REL-1
Surrebuttal

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	[A] COMPANY ORIGINAL COST	[B] STAFF ORIGINAL COST	
1	Adjusted Rate Base	\$ 2,441,155	x \$ 1,898,133	
2	Adjusted Operating Income (Loss)	\$ 121,440	\$ 171,198	
3	Current Rate of Return (L2 / L1)	4.97%	9.02%	
4	Required Rate of Return	10.5000%	8.9000%	8.6000
5	Required Operating Income (L4 * L1)	\$ 256,321	\$ 168,934	
6	Operating Income Deficiency (L5 - L2)	\$ 134,881	\$ (2,264)	
7	Gross Revenue Conversion Factor	1.63245	1.63246	
8	Increase In Gross Revenue (L7 * L6)	\$ 220,187	\$ (3,696)	
9	Adjusted Test Year Revenue	\$ 783,483	\$ 783,483	
10	Proposed Annual Revenue (L8 + L9) Note A	\$ 1,003,670	\$ 779,787	
11	Require Increase in Revenue (%) (L8/L9)	28.10%	-0.47%	

GROSS REVENUE CONVERSION FACTOR

Line
No.

Calculation of Gross Revenue Conversion Factor:

1 Recommended Revenue Increase:		
2 Billings		1.000000
3 Combined Federal and State Income Tax Rate	38.59888%	
4 Uncollectible Rate After Income Taxes	0.14374%	
5 Total Tax Rate		38.74262%
6 Gross Revenue Conversion Factor		<u>1.632456</u>

Calculation of Effective Income Tax Rate:

7 Operating Income Before Taxes (Arizona Taxable Income)	100.00000%
8 Arizona State Income Tax Rate	6.96800%
9 Federal Taxable Income (L5 - L6)	93.03200%
10 Applicable Federal Income Tax Rate (Line 32)	34.00000%
11 Effective Federal Income Tax Rate (L7 x L8)	31.63088%
12 Combined Federal and State Income Tax Rate (L6 +L9)	<u>38.59888%</u>

Calculation of Uncollectible Rate After Income Taxes:

13 Uncollectible Rate		0.23410%
14 Combined Federal and State Income Tax Rate	38.59888%	
15 1 minus Combined Federal and State Income Tax Rate		61.40112%
16 Uncollectible Rate After Income Taxes		<u>0.14374%</u>

Revenue Reconciliation:

17 Recommended Increase in Revenue (from REL-1, L8)	\$ (3,696)	
18 Uncollectible Rate	0.234100%	
19 Required Increase in Revenue to Provide for Uncollectibles	\$	(9)
20 Recommended Increase in Revenue (from REL-1,L8)	\$ (3,696)	
21 Required Increase in Revenue to Provide for Uncollectibles		(9)
22 Incremental Taxable Income	\$ (3,688)	
23 Combined Federal and State Income Tax Rate	38.59888%	
24 Required Increase in Revenue to Provide for Income Taxes		(1,423)
25 Required Operating Income	\$ 168,934	
26 Adjusted Test Year Operating Income (Loss)	171,198	
27 Required Increase in Operating Income		(2,264)
28 Total Required Increase In Revenue	\$	<u>(3,696)</u>

Calculation of Income Tax:

	Test Year	STAFF Recommended
29 Revenue	\$ 783,483	\$ 779,787
30 Less: Operating Expenses Excluding Income Taxes	\$ 530,915	\$ 530,906
31 Less: Synchronized Interest	\$ 41,759	\$ 41,759
32 Arizona Taxable Income	\$ 210,809	\$ 207,121
33 Arizona State Income Tax Rate	6.968%	6.968%
34 Arizona Income Tax	\$ 14,689	\$ 14,432
35 Federal Taxable Income	\$ 196,120	\$ 192,689
36 Federal Income Tax @ 34%	\$ 66,681	\$ 65,514
37 Combined Federal and State Income Tax	\$ 81,370	\$ 79,947
		\$ (1,423)

Calculation of Interest Synchronization:

38 Rate Base	\$ 1,898,133
39 Weighted Average Cost of Debt	2.200%
40 Synchronized Interest	\$ 41,759

RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 6,086,788	\$ 5,580,520
2	Less: Accumulated Depreciation	(1,088,906)	(1,088,906)
3	Net Plant in Service	<u>\$ 4,997,882</u> x	<u>\$ 4,491,614</u>
<u>LESS:</u>			
4	Advances in Aid of Construction (AIAC)	(1,887,880)	(1,887,880)
5	Contributions in Aid of Construction (CIAC)	\$ (554,839)	\$ (554,839)
6	Less: Accumulated Amortization	111,896	111,896
7	Net CIAC	<u>(442,943)</u>	<u>(442,943)</u>
8	Total Advances and Contributions	(2,330,823)	(2,330,823)
9	Customer Deposits	-	-
10	Meter Advances	-	-
11	Deferred Income Tax Credits	(352,670)	(352,670)
<u>ADD:</u>			
12	Working Capital	36,105	(649)
13	Phoenix Office Allocation	89,008	89,008
14	Meter Shop Allocation	1,653	1,653
15		-	-
16		-	-
17		-	-
18	Total Rate Base	<u>\$ 2,441,155</u>	<u>\$ 1,898,133</u>

SUMMARY OF RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ No.1	[C] ADJ No. 2	[D] STAFF ADJUSTED
<u>PLANT IN SERVICE:</u>					
1	Organization	\$ -	\$ -	\$ -	\$ -
2	Franchises	-	-	-	-
3	Other Intangibles	-	-	-	-
4	Water Rights	5,379	-	-	5,379
5	Other Source of Supply Land	28,521	-	-	28,521
6	Wells	535,369	-	-	535,369
7	Pumping Plant Land	-	-	-	-
8	Pumping Plant Structures & Improvements	18,637	-	-	18,637
9	Electric Pumping Equipment	509,917	-	-	509,917
10	Gas Engine Equipment	-	-	-	-
11	Water Treatment Land	-	-	-	-
12	Water Treatment Structures & Improvmnts	79	-	-	79
13	Water Treatment Equipment	15,053	-	-	15,053
14	Transmission and Distribution Land	35,990	-	-	35,990
15	Storage Tanks	481,206	-	-	481,206
16	Transmission and Distribution Mains	2,979,570	-	-	2,979,570
17	Fire Sprinkler Taps	11,849	-	-	11,849
18	Services	554,285	-	-	554,285
19	Meters	90,488	-	-	90,488
20	Hydrants	218,331	-	-	218,331
21	General Plant Land	-	-	-	-
22	General Plant Structures	19,976	-	-	19,976
23	Leasehold Improvements	-	-	-	-
24	Office Furniture and Improvements	15,017	-	-	15,017
25	Warehouse Equipment	1,043	-	-	1,043
26	Tools, Shop and Garage Equipment	18,697	-	-	18,697
27	Laboratory Equipment	2,477	-	-	2,477
28	Power Operated Equipment	635	-	-	635
29	Communication Equipment	27,428	-	-	27,428
30	Miscellaneous Equipment	10,573	-	-	10,573
31	Total Plant in Service - Actual	5,580,520 x	-	-	5,580,520
32	CAP Pro-forma Adjustment - Post TY Plant	506,268 x	(506,268)	-	-
33	Accumulated Depreciation, Retired Plant	-	-	-	-
34	Total Plant in Service - Adjusted	\$ 6,086,788 x	\$ (506,268)	\$ -	\$ 5,580,520
35	Less: Accumulated Depreciation - Actual	\$ (1,079,029) x	-	-	(1,079,029)
36	Less: Accumulated Depreciation - Post TY	(9,877)	-	-	(9,877)
37	Less: Accumulated Depreciation - 12 Mos TY	-	-	-	-
38	Less: Accumulated Depreciation - Retired Plant	-	-	-	-
39	Total Accumulated Depreciation - Adjusted	\$ (1,088,906) x	\$ -	\$ -	\$ (1,088,906)
40	Plus: Construction Work In Progress	-	-	-	-
41	Net Plant in Service	\$ 4,997,882 x	\$ (506,268)	\$ -	\$ 4,491,614
<u>LESS:</u>					
42	Advances in Aid of Construction (AIAC)	\$ (1,887,880) x	\$ -	\$ -	(1,887,880)
43	Contributions in Aid of Construction (CIAC)	(554,839) x	-	-	(554,839)
44	Less: Accumulated Amortization	111,896 x	-	-	111,896
45	Net CIAC (L25 - L26)	(442,943) x	-	-	(442,943)
46	Total Advances and Contributions	(2,330,823) x	-	-	(2,330,823)
47	Customer Deposits	-	-	-	-
48	Meter Advances	-	-	-	-
49	Deferred Income Tax Credits	(352,670) x	-	-	(352,670)
<u>ADD:</u>					
50	Working Capital Allowance	36,105 x	-	(36,754)	(649)
51	Phoenix Office Allocation	89,008 x	-	-	89,008
52	Meter Shop Allocation	1,653 x	-	-	1,653
53	Projected Capital Expenditures	-	-	-	-
54	Deferred Debits	-	-	-	-
55	Other Additions	-	-	-	-
56	Total Rate Base	\$ 2,441,155 ?	\$ (506,268)	\$ (36,754)	\$ 1,898,133

OPERATING INCOME - TEST YEAR AND STAFF PROPOSED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
<u>REVENUES:</u>						
1	Total Operating Revenues	\$ 783,483	\$ -	\$ 783,483	\$ (3,696)	\$ 779,787
<u>EXPENSES:</u>						
Source of Supply Expenses:						
2	Purchased Water	\$ 37,383	\$ (27,104)	\$ 10,279	\$ -	\$ 10,279
3	Other	2,880	-	2,880	-	2,880
Pumping Expenses:						
4	Purchased Power	78,404	456	78,860	-	78,860
5	Purchased Gas	-	-	-	-	-
6	Other	27,057	-	27,057	-	27,057
7	Water Treatment Expenses	9,655	-	9,655	-	9,655
8	Transmission and Distribution Expenses	79,261	-	79,261	-	79,261
9	Customer Account Expenses	54,850	-	54,850	(9)	54,841
10	Sales Expenses	263	-	263	-	263
11	Administrative and General Expenses	87,371	(960)	86,411	-	86,411
12	Total Operation and Maintenance	\$ 377,124	(27,608)	349,516	(9)	349,507
13	Depreciation and Amortization	182,626	(50,627)	131,999	-	131,999
15	Ad Valorem (Property)	41,993	799	42,792	-	42,792
Taxes:						
14	Federal & State Income Tax	53,692	27,678	81,370	(1,423)	79,947
16	Other	6,608	-	6,608	-	6,608
17	Total Operating Expenses	\$ 662,043	\$ (49,758)	\$ 612,285	\$ (1,432)	\$ 610,853
18	Operating Income (Loss)	\$ 121,440	\$ 49,758	\$ 171,198	\$ (2,264)	\$ 168,934

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1	[C] ADJ #2	[D] ADJ #3	[E] ADJ #4	[K] ADJ #10	[F] ADJ #5	[G] ADJ #6	[H] ADJ #7	[I] STAFF ADJUSTED
REVENUES:											
1	Total Operating Revenues	\$ 783,483	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 783,483
EXPENSES:											
Source of Supply Expenses:											
2	Purchased Water	\$ 37,383	(27,104)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,279
3	Other	2,880	-	-	-	-	-	-	-	-	2,880
Pumping Expenses:											
4	Purchased Power	78,404	-	456	-	-	-	-	-	-	78,860
5	Purchased Gas	-	-	-	-	-	-	-	-	-	-
6	Other	27,057	-	-	-	-	-	-	-	-	27,057
7	Water Treatment Expenses	9,655	-	-	-	-	-	-	-	-	9,655
8	Transmission and Distribution Expenses	79,261	-	-	-	-	-	-	-	-	79,261
9	Customer Account Expenses	54,850	-	-	-	-	-	-	-	-	54,850
10	Sales Expenses	263	-	-	-	-	-	-	-	-	263
11	Administrative and General Expenses	87,371	-	-	(665)	(295)	-	-	-	-	86,411
12	Total Operation and Maintenance	377,124	(27,104)	456	(665)	(295)	(50,627)	-	-	-	349,516
13	Depreciation and Amortization	182,626	-	-	-	-	-	-	-	-	131,999
15	Ad Valorem (Property)	41,993	-	-	-	-	-	799	-	-	42,792
Taxes:											
14	Federal & State Income Tax	53,692	-	-	-	-	-	-	20,112	7,566	81,370
16	Other	6,608	-	-	-	-	-	-	-	-	6,608
17	Total Operating Expenses	\$ 662,043 x	\$ (27,104)	\$ 456	\$ (665)	\$ (295)	\$ (50,627)	\$ 799	\$ 20,112	\$ 7,566	\$ 612,285
18	Operating Income (Loss)	\$ 121,440 x	\$ 27,104	\$ (456)	\$ 665	\$ 295	\$ 50,627	\$ (799)	\$ (20,112)	\$ (7,566)	\$ 171,198

OPERATING INCOME ADJUSTMENT NO. 5 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENT	(C) STAFF AS ADJUSTMENT
1	2001 Annual Gross Revenues			\$ 653,896
2	2002 Annual Gross Revenues			\$ 693,746
3	2003 Annual Gross Revenues			\$ 783,483
4	Plus Staff's Recommended Increase			\$ (3,696)
5	Subtotal (Lines 1 + 2 + 3 + 4)			\$ 2,127,429
6	Three Year Average Calculation			3
7	Three Year Average (Line 5 / Line 6)			\$ 709,143
8	Department of Revenue Multiplier			2
9	Revenue Base Value (Line 7 x Line 8)			\$ 1,418,286
10	Plus: 10% of 2001 CWIP			10
11	Less: Net Book Value of Leased Vehicles (See Note A Below)			\$ 38,463
12	Full Cash Value (Line 9 + Line 10 - Line 11)			\$ 1,379,833
13	Assessment Ratio			0.25
14	Assessed Value (Line 12 x Line 13)			\$ 344,958
15	Composite Property Tax Rate (See Note B Below)			0.12405
16	Staff Proposed Property Tax Expense (Line 14 x Line 15)	\$ 41,993	\$ 799	\$ 42,792

Note A: Net Book Value of Licensed Vehicles provided by Arizona Water.

Note B: Property tax rate provided by Arizona Dept. of Revenue.

Arizona Water Company - White Tank
Docket No. W-01445A-02-0619
Test Year Ended December 31, 2001

Schedule REL- 14
Surrebuttal

OPERATING INCOME ADJUSTMENT NO. 6 and 7 - INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	(A)	(B)	(C)
		COMPANY AS FILED	STAFF ADJUSTMENT	STAFF AS ADJUSTED
1	Federal Income Taxes	\$ 46,569	\$ 20,112	\$ 66,681
2	State Income Taxes	7,123	7,566	14,689
3	Total Income Taxes	<u>\$ 53,692</u>	<u>\$ 27,678</u>	<u>\$ 81,370</u>

RATE DESIGN

Monthly Usage Charge:

5/8" x 3/4" Meter
1" Meter
2" Meter
3" Meter
4" Meter
6" Meter
8" Meter
10" Meter

Minimum Monthly Usage Charge			
Present Rates	---Proposed Rates---		
	Company	Staff	
\$ 16.50	\$ 20.90	\$ 17.50	
\$ 31.07	\$ 46.40	\$ 36.00	
\$ 82.86	\$ 137.52	\$ 90.00	
\$ 155.37	\$ 257.91	\$ 200.00	
\$ 207.16	\$ 384.36	\$ 286.45	
\$ 492.01	\$ 818.64	\$ 335.79	
\$ 621.48	\$ 1,203.00	\$ 625.36	
\$ 673.27	\$ 1,687.41	\$ 837.19	

Gallons Included In Minimum Charge:

5/8" x 3/4" Meter
1" Meter
2" Meter
3" Meter
4" Meter
6" Meter
8" Meter
10" Meter

Fire Hydrants Used For Construction Water

1,000	0	0
1,000	0	0
1,000	0	0
1,000	0	0
1,000	0	0
1,000	0	0
1,000	0	0
1,000	0	0
1,000	0	0

Commodity Rates : 5/8 x 3/4 Meter

Per 1,000 Gallons (In Excess of Minimum)
Per 1,000 Gallons for 0 to 3,000 Gallons
Per 1,000 Gallons for 3,001 to 10,000 Gallons
Per 1,000 Gallons for Gallons in Excess of 10,000

\$ 2.4240	N/A	N/A
\$ 2.4240	\$ 2.9210	\$ 1.1500
\$ 2.4240	\$ 2.9210	\$ 2.0000
\$ 2.4240	\$ 2.9210	\$ 3.0000

Commodity Rates : 1 Inch Meter

Per 1,000 Gallons (In Excess of Minimum)
Per 1,000 Gallons for 0 to 25,000 Gallons
Per 1,000 Gallons for Gallons in Excess of 25,000

\$ 2.4240	N/A	N/A
\$ 2.4240	\$ 2.9210	\$ 2.0000
\$ 2.4240	\$ 2.9210	\$ 3.0000

Commodity Rates : 2 Inch Meter

Per 1,000 Gallons (In Excess of Minimum)
Per 1,000 Gallons for 0 to 100,000 Gallons
Per 1,000 Gallons for Gallons in Excess of 100,000

\$ 2.4240	N/A	N/A
\$ 2.4240	\$ 2.9210	\$ 2.0000
\$ 2.4240	\$ 2.9210	\$ 3.0000

Commodity Rates : 3 Inch Meter

Per 1,000 Gallons (In Excess of Minimum)
Per 1,000 Gallons for 0 to 200,000 Gallons
Per 1,000 Gallons for Gallons in Excess of 200,000

\$ 2.4240	N/A	N/A
\$ 2.4240	\$ 2.9210	\$ 2.0000
\$ 2.4240	\$ 2.9210	\$ 3.0000

**RATE DESIGN
CONTINUED**

Present Rates	---Proposed Rates---	
	Company	Staff

Service Line and Meter Installation Charge:

5/8" x 3/4" Meter	(a)	(a)	(a)
1" Meter	(a)	(a)	(a)
2" Meter	(b)	(b)	(b)
3" Meter	(b)	(b)	(b)
4" Meter	(b)	(b)	(b)
6" Meter	(b)	(b)	(b)

(a) No charge for 5/8" and 1" if on existing pipelines. Full cost for 5/8" and 1" if
if on new pipelines.

(b) Full cost for 2" and larger if on existing or new pipelines.

Service Charges:

Establishment	\$ 16.00	\$ 16.00	\$ 16.00
Guarantee Deposit	(c)	(c)	(c)
Reconnection for Delinquency (per disconnection)	\$ 16.00	\$ 16.00	\$ 16.00
Re-establishment	(d)	(d)	(d)
Service Call Out (After Regular Working Hours Only)	\$ 35.00	\$ 35.00	\$ 35.00
Returned Check Charge	\$ 10.00	\$ 25.00	\$ 25.00
Meter Re-read (After Regular Working Hours Only)	\$ 35.00	\$ 35.00	\$ 35.00
Meter Test	\$ 50.00	\$ 50.00	\$ 50.00
Late Charge	N/A	(e)	(e)

(c) Per Commission Rule A.A.C. R14-2-403B

(d) Eight (8) times the customer's monthly minimum charge,
or payment of the minimums since disconnection, whichever is less.

N/A No current tariff.

(e) 1.5 percent after 15 days

Arizona Water Company - White Tank
Docket No. W-01445A-04-0650
Test Year Ended December 31, 2003

Schedule REL-17
Surrebuttal

OPERATING INCOME ADJUSTMENT NO. 10 - DEPRECIATION EXPENSE INCL. POST-TEST YEAR PLANT

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENT	STAFF AS ADJUSTED
1	CAP Amortization	\$ 182,626	\$ (50,627)	\$ 131,999
			-	-
		<u>\$ 182,626</u>	<u>\$ (50,627)</u>	<u>\$ 131,999</u>

Arizona Water Company - Coolidge
Docket No. W-01445A-04-0650
Test Year Ended December 31, 2003

Schedule REL-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	[A] COMPANY ORIGINAL COST	[B] STAFF ORIGINAL COST
1	Adjusted Rate Base	\$ 3,817,510	\$ 2,713,030
2	Adjusted Operating Income (Loss)	\$ 100,737	\$ 237,788
3	Current Rate of Return (L2 / L1)	2.64%	8.76%
4	Required Rate of Return	10.5000%	8.9000%
5	Required Operating Income (L4 * L1)	\$ 400,839	\$ 241,460
6	Operating Income Deficiency (L5 - L2)	\$ 300,102	\$ 3,672
7	Gross Revenue Conversion Factor	1.63245	1.63246
8	Increase In Gross Revenue (L7 * L6)	\$ 489,901	\$ 5,994
9	Adjusted Test Year Revenue	\$ 1,427,285	\$ 1,427,285
10	Proposed Annual Revenue (L8 + L9) Note A	\$ 1,917,186	\$ 1,433,279
11	Require Increase in Revenue (%) (L8/L9)	34.32%	0.42%

GROSS REVENUE CONVERSION FACTOR

Line
No.

Calculation of Gross Revenue Conversion Factor:

1	Recommended Revenue Increase:		
2	Billings	1.000000	
3	Combined Federal and State Income Tax Rate	38.59888%	
4	Uncollectible Rate After Income Taxes	0.14374%	
5	Total Tax Rate	38.74262%	
6	Gross Revenue Conversion Factor	<u>1.632456</u>	

Calculation of Effective Income Tax Rate:

7	Operating Income Before Taxes (Arizona Taxable Income)	100.00000%
8	Arizona State Income Tax Rate	6.96800%
9	Federal Taxable Income (L5 - L6)	93.03200%
10	Applicable Federal Income Tax Rate (Line 32)	34.00000%
11	Effective Federal Income Tax Rate (L7 x L8)	31.63088%
12	Combined Federal and State Income Tax Rate (L6 +L9)	<u>38.59888%</u>

Calculation of Uncollectible Rate After Income Taxes:

13	Uncollectible Rate	0.23410%
14	Combined Federal and State Income Tax Rate	38.59888%
15	1 minus Combined Federal and State Income Tax Rate	61.40112%
16	Uncollectible Rate After Income Taxes	<u>0.14374%</u>

Revenue Reconciliation:

17	Recommended Increase in Revenue (from REL-1, L8)	\$ 5,994
18	Uncollectible Rate	0.234100%
19	Required Increase in Revenue to Provide for Uncollectibles	\$ 14
20	Recommended Increase in Revenue (from REL-1, L8)	\$ 5,994
21	Required Increase in Revenue to Provide for Uncollectibles	14
22	Incremental Taxable Income	\$ 5,980
23	Combined Federal and State Income Tax Rate	38.59888%
24	Required Increase in Revenue to Provide for Income Taxes	2,308
25	Required Operating Income	\$ 241,460
26	Adjusted Test Year Operating Income (Loss)	237,788
27	Required Increase in Operating Income	3,672
28	Total Required Increase In Revenue	<u>\$ 5,994</u>

Calculation of Income Tax:

	Test Year	STAFF Recommended
29	Revenue	\$ 1,427,285
30	Less: Operating Expenses Excluding Income Taxes	\$ 1,077,536
31	Less: Synchronized Interest	\$ 59,687
32	Arizona Taxable Income	\$ 290,062
33	Arizona State Income Tax Rate	6.968%
34	Arizona Income Tax	\$ 20,212
35	Federal Taxable Income	\$ 275,414
36	Federal Income Tax @ 34%	\$ 93,641
37	Combined Federal and State Income Tax	<u>\$ 114,269</u>
		\$ 2,308

Calculation of Interest Synchronization:

38	Rate Base	\$ 2,713,030
39	Weighted Average Cost of Debt	2.200%
40	Synchronized Interest	<u>\$ 59,687</u>

RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 7,129,140	\$ 6,083,129
2	Less: Accumulated Depreciation	(2,271,697)	(2,271,697)
3	Net Plant in Service	<u>\$ 4,857,443</u> x	<u>\$ 3,811,432</u>
<u>LESS:</u>			
4	Advances in Aid of Construction (AIAC)	(406,644) x	(406,644)
5	Contributions in Aid of Construction (CIAC)	\$ (437,102)	\$ (437,102)
6	Less: Accumulated Amortization	74,970	74,970
7	Net CIAC	<u>(362,132) x</u>	<u>(362,132)</u>
8	Total Advances and Contributions	(768,776)	(768,776)
9	Customer Deposits	-	-
10	Meter Advances	-	-
11	Deferred Income Tax Credits	(504,369) x	(504,369)
<u>ADD:</u>			
12	Working Capital	32,202 x	(26,267) x
13	Phoenix Office Allocation	197,345 x	197,345
14	Meter Shop Allocation	3,665 x	3,665
15		-	-
16		-	-
17		-	-
18	Total Rate Base	<u>\$ 3,817,510</u>	<u>\$ 2,713,030</u>

SUMMARY OF RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ No.1	[C] ADJ No. 2	[D] STAFF ADJUSTED
<u>PLANT IN SERVICE:</u>					
1	Organization	\$ -	\$ -	\$ -	\$ -
2	Franchises	8,740	-	-	8,740
3	Other Intangibles	-	-	-	-
4	Water Rights	13,508	-	-	13,508
5	Other Source of Supply Land	2,927	-	-	2,927
6	Wells	226,328	-	-	226,328
7	Pumping Plant Land	25,684	-	-	25,684
8	Pumping Plant Structures & Improvements	8,348	-	-	8,348
9	Electric Pumping Equipment	732,365	-	-	732,365
10	Gas Engine Equipment	20,026	-	-	20,026
11	Water Treatment Land	-	-	-	-
12	Water Treatment Structures & Improvmnts	1,847	-	-	1,847
13	Water Treatment Equipment	103,606	-	-	103,606
14	Transmission and Distribution Land	-	-	-	-
15	Storage Tanks	286,758	-	-	286,758
16	Transmission and Distribution Mains	2,721,370	-	-	2,721,370
17	Fire Sprinkler Taps	73,130	-	-	73,130
18	Services	1,151,206	-	-	1,151,206
19	Meters	209,735	-	-	209,735
20	Hydrants	218,296	-	-	218,296
21	General Plant Land	-	-	-	-
22	General Plant Structures	25,180	-	-	25,180
23	Leasehold Improvements	48,181	-	-	48,181
24	Office Furniture and Improvements	77,911	-	-	77,911
25	Warehouse Equipment	-	-	-	-
26	Tools, Shop and Garage Equipment	47,217	-	-	47,217
27	Laboratory Equipment	6,726	-	-	6,726
28	Power Operated Equipment	15,016	-	-	15,016
29	Communication Equipment	52,470	-	-	52,470
30	Miscellaneous Equipment	6,554	-	-	6,554
31	Total Plant in Service - Actual	6,083,129 x	-	-	6,083,129
32	Pro-forma Adjustment - Post TY Plant	1,046,011	(1,046,011)	-	-
33	Accumulated Depreciation, Retired Plant	-	-	-	-
34	Total Plant in Service - Adjusted	\$ 7,129,140 x	\$ (1,046,011)	\$ -	\$ 6,083,129
35	Less: Accumulated Depreciation - Actual	\$ (2,249,826) x	-	-	(2,249,826)
36	Less: Accumulated Depreciation - Post TY	(21,871)	-	-	(21,871)
37	Less: Accumulated Depreciation - 12 Mos TY	-	-	-	-
38	Less: Accumulated Depreciation - Retired Plant	-	-	-	-
39	Total Accumulated Depreciation - Adjusted	\$ (2,271,697)	\$ -	\$ -	\$ (2,271,697)
40	Plus: Construction Work In Progress	-	-	-	-
41	Net Plant in Service	\$ 4,857,443 x	\$ (1,046,011)	\$ -	\$ 3,811,432
<u>LESS:</u>					
42	Advances in Aid of Construction (AIAC)	\$ (406,644) x	\$ -	\$ -	(406,644)
43	Contributions in Aid of Construction (CIAC)	(437,102) x	-	-	(437,102)
44	Less: Accumulated Amortization	74,970 x	-	-	74,970
45	Net CIAC (L25 - L26)	(362,132) x	-	-	(362,132)
46	Total Advances and Contributions	(768,776) x	-	-	(768,776)
47	Customer Deposits	-	-	-	-
48	Meter Advances	-	-	-	-
49	Deferred Income Tax Credits	(504,369) x	-	-	(504,369)
<u>ADD:</u>					
50	Working Capital Allowance	32,202 x	-	(58,469)	(26,267)
51	Phoenix Office Allocation	197,345 x	-	-	197,345
52	Meter Shop Allocation	3,665 x	-	-	3,665
53	Projected Capital Expenditures	-	-	-	-
54	Deferred Debits	-	-	-	-
55	Other Additions	-	-	-	-
56	Total Rate Base	\$ 3,817,510	\$ (1,046,011)	\$ (58,469)	\$ 2,713,030

OPERATING INCOME - TEST YEAR AND STAFF PROPOSED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
<u>REVENUES:</u>						
1	Total Operating Revenues	\$ 1,427,285	\$ -	\$ 1,427,285	\$ 5,994	\$ 1,433,279
<u>EXPENSES:</u>						
Source of Supply Expenses:						
2	Purchased Water	\$ 56,000	\$ (56,000)	\$ -	\$ -	\$ -
3	Other	7,914	-	7,914	-	7,914
Pumping Expenses:						
4	Purchased Power	97,408	283	97,691	-	97,691
5	Purchased Gas	603	-	603	-	603
6	Other	37,838	-	37,838	-	37,838
7	Water Treatment Expenses	13,267	-	13,267	-	13,267
8	Transmission and Distribution Expenses	196,681	-	196,681	-	196,681
9	Customer Account Expenses	191,070	-	191,070	14	191,084
10	Sales Expenses	259	-	259	-	259
11	Administrative and General Expenses	235,586	(1,967)	233,619	-	233,619
12	Total Operation and Maintenance	\$ 836,626	(57,684)	778,942	14	778,956
13	Depreciation and Amortization	275,122	(104,601)	170,521	-	170,521
15	Ad Valorem (Property)	127,110	(23,614)	103,496	-	103,496
Taxes:						
14	Federal & State Income Tax	63,113	48,848	111,961	2,308	114,269
16	Other	24,577	-	24,577	-	24,577
17	Total Operating Expenses	\$ 1,326,548	\$ (137,051)	\$ 1,189,497	\$ 2,322	\$ 1,191,819
18	Operating Income (Loss)	\$ 100,737	\$ 137,051	\$ 237,788	\$ 3,672	\$ 241,460

Arizona Water Company - Coolidge
Docket No. W-01445A-04-0650
Test Year Ended December 31, 2003

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1	[C] ADJ #2	[D] ADJ #3	[E] ADJ #5	[F] ADJ #7	[G] ADJ #8	[H] ADJ #9	[I] STAFF ADJUSTED
<u>REVENUES:</u>										
1	Total Operating Revenues	\$ 1,427,285	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,427,285
<u>EXPENSES:</u>										
Source of Supply Expenses:										
2	Purchased Water	\$ 56,000	\$ (56,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3	Other	7,914	-	-	-	-	-	-	-	7,914
Pumping Expenses:										
4	Purchased Power	97,408	-	283	-	-	-	-	-	97,691
5	Purchased Gas	603	-	-	-	-	-	-	-	603
6	Other	37,838	-	-	-	-	-	-	-	37,838
7	Water Treatment Expenses	13,267	-	-	-	-	-	-	-	13,267
8	Transmission and Distribution Expenses	196,681	-	-	-	-	-	-	-	196,681
9	Customer Account Expenses	191,070	-	-	-	-	-	-	-	191,070
10	Sales Expenses	259	-	-	-	-	-	-	-	259
11	Administrative and General Expenses	235,586	-	-	(1,475)	(492)	-	-	-	233,619
12	Total Operation and Maintenance	836,626	(56,000)	283	(1,475)	(492)	-	-	-	778,942
13	Depreciation and Amortization	275,122	-	-	-	-	-	-	-	170,521
15	Ad Valorem (Property)	127,110	-	-	-	-	(23,614)	-	-	103,496
Taxes:										
14	Federal & State Income Tax	63,113	-	-	-	-	-	36,160	12,688	111,961
16	Other	24,577	-	-	-	-	-	-	-	24,577
17	Total Operating Expenses	\$ 1,326,548 x	\$ (56,000)	\$ 283	\$ (1,475)	\$ (492)	\$ (23,614)	\$ 36,160	\$ 12,688	\$ 1,189,497
18	Operating Income (Loss)	\$ 100,737 x	\$ 56,000	\$ (283)	\$ 1,475	\$ 492	\$ 23,614	\$ (36,160)	\$ (12,688)	\$ 237,788

Arizona Water Company - Coolidge
Docket No. W-01445A-04-0650
Test Year Ended December 31, 2003

Schedule REL-11
Surrebuttal

OPERATING INCOME ADJUSTMENT NO. 10 - DEPRECIATION EXPENSE INCL. POST-TEST YEAR PLANT

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENT	STAFF AS ADJUSTED
1	CAP Amortization	\$ 275,122	\$ (104,601)	\$ 170,521
		\$ 275,122	\$ (104,601)	\$ 170,521

OPERATING INCOME ADJUSTMENT NO. 5 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENT	(C) STAFF AS ADJUSTMENT
1	2001 Annual Gross Revenues			\$ 1,327,428
2	2002 Annual Gross Revenues			\$ 1,399,667
3	2003 Annual Gross Revenues			\$ 1,427,285
4	Plus Staff's Recommended Increase			\$ 5,994
5	Subtotal (Lines 1 + 2 + 3 + 4)			\$ 4,160,374
6	Three Year Average Calculation			3
7	Three Year Average (Line 5 / Line 6)			\$ 1,386,791
8	Department of Revenue Multiplier			2
9	Revenue Base Value (Line 7 x Line 8)			\$ 2,773,583
10	Plus: 10% of 2001 CWIP			\$ 12,794.00
11	Less: Net Book Value of Leased Vehicles (See Note A Below)			\$ 38,379
12	Full Cash Value (Line 9 + Line 10 - Line 11)			\$ 2,747,998
13	Assessment Ratio			0.25
14	Assessed Value (Line 12 x Line 13)			\$ 686,999
15	Composite Property Tax Rate (See Note B Below)			0.15065
16	Staff Proposed Property Tax Expense (Line 14 x Line 15)	\$ 127,110	\$ (23,614)	\$ 103,496

Note A: Net Book Value of Licensed Vehicles provided by Arizona Water.

Note B: Property tax rate provided by Arizona Dept. of Revenue.

Arizona Water Company - Coolidge
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Test Year Ended December 31, 2003

Schedule REL- 14

OPERATING INCOME ADJUSTMENT NOS. 6 and 7 - INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	(A)	(B)	(C)
		COMPANY AS FILED	STAFF ADJUSTMENT	STAFF AS ADJUSTED
1	Federal Income Taxes	\$ 55,589	\$ 36,160	\$ 91,749
2	State Income Taxes	7,524	12,688	20,212
3	Total Income Taxes	\$ 63,113	\$ 48,848	\$ 111,961

RATE DESIGN

Monthly Usage Charge:

5/8" x 3/4" Meter
1" Meter
2" Meter
3" Meter
4" Meter
6" Meter
8" Meter
10" Meter

Minimum Monthly Usage Charge			
Present Rates	---Proposed Rates---		
	Company	Staff	
\$ 10.88	\$ 14.79	\$ 10.00	
\$ 26.93	\$ 36.83	\$ 21.00	
\$ 88.04	\$ 119.06	\$ 79.00	
\$ 165.73	\$ 223.62	\$ 140.00	
\$ 274.49	\$ 371.38	\$ 220.00	
\$ 543.80	\$ 739.35	\$ 600.00	
\$ 621.48	\$ 1,203.00	\$ 625.36	
\$ 673.27	\$ 1,687.41	\$ 837.19	

Gallons Included In Minimum Charge:

5/8" x 3/4" Meter
1" Meter
2" Meter
3" Meter
4" Meter
6" Meter
8" Meter
10" Meter

1,000	0	0
1,000	0	0
1,000	0	0
1,000	0	0
1,000	0	0
1,000	0	0
1,000	0	0
1,000	0	0
1,000	0	0

Fire Hydrants Used For Construction Water

1,000	0	0
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Commodity Rates : 5/8 x 3/4 Meter

Per 1,000 Gallons (In Excess of Minimum)
Per 1,000 Gallons for 0 to 3,000 Gallons
Per 1,000 Gallons for 3,001 to 10,000 Gallons
Per 1,000 Gallons for Gallons in Excess of 10,000

\$ 2.0920	N/A	N/A
\$ 2.0920	\$ 2.6340	\$ 1.0000
\$ 2.0920	\$ 2.6340	\$ 1.9000
\$ 2.0920	\$ 2.6340	\$ 2.9000

Commodity Rates : 1 Inch Meter

Per 1,000 Gallons (In Excess of Minimum)
Per 1,000 Gallons for 0 to 25,000 Gallons
Per 1,000 Gallons for Gallons in Excess of 25,000

\$ 2.0920	N/A	N/A
\$ 2.0920	\$ 2.6340	\$ 1.9000
\$ 2.0920	\$ 2.6340	\$ 2.9000

Commodity Rates : 2 Inch Meter

Per 1,000 Gallons (In Excess of Minimum)
Per 1,000 Gallons for 0 to 150,000 Gallons
Per 1,000 Gallons for Gallons in Excess of 150,000

\$ 2.0920	N/A	N/A
\$ 2.0920	\$ 2.6340	\$ 1.9000
\$ 2.0920	\$ 2.6340	\$ 2.9000

Commodity Rates : 3 Inch Meter

Per 1,000 Gallons (In Excess of Minimum)
Per 1,000 Gallons for 0 to 225,000 Gallons
Per 1,000 Gallons for Gallons in Excess of 225,000

\$ 2.0920	N/A	N/A
\$ 2.0920	\$ 2.6340	\$ 1.9000
\$ 2.0920	\$ 2.6340	\$ 2.9000

**RATE DESIGN
CONTINUED**

Present Rates	---Proposed Rates---	
	Company	Staff

Commodity Rates : 4 and 6 Inch Meters

Per 1,000 Gallons (In Excess of Minimum)	\$ 2.0920	N/A	N/A
Per 1,000 Gallons for 0 to 700,000 Gallons	\$ 2.0920	\$ 2.6340	\$ 1.9000
Per 1,000 Gallons for Gallons in Excess of 700,000	\$ 2.0920	\$ 2.6340	\$ 2.9000

Service Line and Meter Installation Charge:

5/8" x 3/4" Meter	(a)	(a)	(a)
1" Meter	(a)	(a)	(a)
2" Meter	(b)	(b)	(b)
3" Meter	(b)	(b)	(b)
4" Meter	(b)	(b)	(b)
6" Meter	(b)	(b)	(b)

(a) No charge for 5/8" and 1" if on existing pipelines. Full cost for 5/8" and 1" if
if on new pipelines.

(b) Full cost for 2" and larger if on existing or new pipelines.

Service Charges:

Establishment	\$ 16.00	\$ 16.00	\$ 16.00
Guarantee Deposit	(c)	(c)	(c)
Reconnection for Delinquency (per disconnection)	\$ 16.00	\$ 16.00	\$ 16.00
Re-establishment	(d)	(d)	(d)
Service Call Out (After Regular Working Hours Only)	\$ 35.00	\$ 35.00	\$ 35.00
Returned Check Charge	\$ 10.00	\$ 25.00	\$ 25.00
Meter Re-read (After Regular Working Hours Only)	\$ 35.00	\$ 35.00	\$ 35.00
Meter Test	\$ 50.00	\$ 50.00	\$ 50.00
Late Charge	N/A	(e)	(e)

(c) Per Commission Rule A.A.C. R14-2-403B

(d) Eight (8) times the customer's monthly minimum charge,
or payment of the minimums since disconnection, whichever is less.

N/A No current tariff.

(e) 1.5 percent after 15 days

Arizona Water Company - Ajo
Docket No. W-01445A-04-0650
Test Year Ended December 31, 2003

Schedule REL-1
Surrebuttal

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	[A] COMPANY ORIGINAL COST	[B] STAFF ORIGINAL COST
1	Adjusted Rate Base	\$ 847,167	x \$ 837,088
2	Adjusted Operating Income (Loss)	\$ 34,697	\$ 36,504
3	Current Rate of Return (L2 / L1)	4.10%	4.36%
4	Required Rate of Return	10.5000%	8.9000%
5	Required Operating Income (L4 * L1)	\$ 88,953	\$ 74,501
6	Operating Income Deficiency (L5 - L2)	\$ 54,256	\$ 37,997
7	Gross Revenue Conversion Factor	1.63245	1.63246
8	Increase In Gross Revenue (L7 * L6)	\$ 88,569	\$ 62,029
9	Adjusted Test Year Revenue	\$ 412,203	\$ 412,203
10	Proposed Annual Revenue (L8 + L9) Note A	\$ 500,772	\$ 474,232
11	Require Increase in Revenue (%) (L8/L9)	21.49%	15.05%

GROSS REVENUE CONVERSION FACTOR

Line
No.

Calculation of Gross Revenue Conversion Factor:

1 Recommended Revenue Increase:		
2 Billings		1.000000
3 Combined Federal and State Income Tax Rate	38.59888%	
4 Uncollectible Rate After Income Taxes	0.14374%	
5 Total Tax Rate		38.74262%
6 Gross Revenue Conversion Factor		<u>1.632456</u>

Calculation of Effective Income Tax Rate:

7 Operating Income Before Taxes (Arizona Taxable Income)	100.00000%
8 Arizona State Income Tax Rate	6.96800%
9 Federal Taxable Income (L5 - L6)	93.03200%
10 Applicable Federal Income Tax Rate (Line 32)	34.00000%
11 Effective Federal Income Tax Rate (L7 x L8)	31.63088%
12 Combined Federal and State Income Tax Rate (L6 +L9)	<u>38.59888%</u>

Calculation of Uncollectible Rate After Income Taxes:

13 Uncollectible Rate		0.23410%
14 Combined Federal and State Income Tax Rate	38.59888%	
15 1 minus Combined Federal and State Income Tax Rate		61.40112%
16 Uncollectible Rate After Income Taxes		<u>0.14374%</u>

Revenue Reconciliation:

17 Recommended Increase in Revenue (from REL-1, L8)	\$ 62,029	
18 Uncollectible Rate	0.234100%	
19 Required Increase in Revenue to Provide for Uncollectibles		\$ 145
20 Recommended Increase in Revenue (from REL-1,L8)	\$ 62,029	
21 Required Increase in Revenue to Provide for Uncollectibles	145	
22 Incremental Taxable Income	\$ 61,884	
23 Combined Federal and State Income Tax Rate	38.59888%	
24 Required Increase in Revenue to Provide for Income Taxes		23,886
25 Required Operating Income	\$ 74,501	
26 Adjusted Test Year Operating Income (Loss)	36,504	
27 Required Increase in Operating Income		37,997
28 Total Required Increase in Revenue		<u>\$ 62,029</u>

Calculation of Income Tax:

	Test Year	STAFF Recommended
29 Revenue	\$ 412,203	\$ 474,232
30 Less: Operating Expenses Excluding Income Taxes	\$ 364,329	\$ 364,474
31 Less: Synchronized Interest	\$ 18,416	\$ 18,416
32 Arizona Taxable Income	\$ 29,458	\$ 91,342
33 Arizona State Income Tax Rate	6.968%	6.968%
34 Arizona Income Tax	\$ 2,053	\$ 6,365
35 Federal Taxable Income	\$ 27,406	\$ 84,977
36 Federal Income Tax @ 34%	\$ 9,318	\$ 28,892
37 Combined Federal and State Income Tax	<u>\$ 11,371</u>	<u>\$ 35,257</u>
		\$ 23,886

Calculation of Interest Synchronization:

38 Rate Base	\$ 837,088
39 Weighted Average Cost of Debt	2.200%
40 Synchronized Interest	<u>\$ 18,416</u>

RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 1,656,478	\$ 1,656,478
2	Less: Accumulated Depreciation	(624,244)	(624,244)
3	Net Plant in Service	<u>\$ 1,032,234</u> x	<u>\$ 1,032,234</u>
<u>LESS:</u>			
4	Advances in Aid of Construction (AIAC)	(36,395) x	(36,395)
5	Contributions in Aid of Construction (CIAC)	\$ (41,263)	\$ (41,263)
6	Less: Accumulated Amortization	10,797	10,797
7	Net CIAC	<u>(30,466) x</u>	<u>(30,466)</u>
8	Total Advances and Contributions	(66,861)	(66,861)
9	Customer Deposits	-	-
10	Meter Advances	-	-
11	Deferred Income Tax Credits	(157,495)	(157,495)
<u>ADD:</u>			
12	Working Capital	(4,209)	(14,288)
13	Phoenix Office Allocation	42,706	42,706
14	Meter Shop Allocation	792	792
15		-	-
16		-	-
17		-	-
18	Total Rate Base	<u>\$ 847,167</u>	<u>\$ 837,088</u>

SUMMARY OF RATE BASE ADJUSTMENTS

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ No.1	[C] STAFF ADJUSTED
<u>PLANT IN SERVICE:</u>				
1	Organization	\$ -	\$ -	\$ -
2	Franchises	-	-	-
3	Other Intangibles	-	-	-
4	Water Rights	2,916	-	2,916
5	Other Source of Supply Land	-	-	-
6	Wells	-	-	-
7	Pumping Plant Land	3,208	-	3,208
8	Pumping Plant Structures & Improvements	3,015	-	3,015
9	Electric Pumping Equipment	74,000	-	74,000
10	Gas Engine Equipment	-	-	-
11	Water Treatment Land	-	-	-
12	Water Treatment Structures & Improvmnts	-	-	-
13	Water Treatment Equipment	-	-	-
14	Transmission and Distribution Land	6,065	-	6,065
15	Storage Tanks	160,356	-	160,356
16	Transmission and Distribution Mains	984,946	-	984,946
17	Fire Sprinkler Taps	104	-	104
18	Services	244,045	-	244,045
19	Meters	49,367	-	49,367
20	Hydrants	41,536	-	41,536
21	General Plant Land	-	-	-
22	General Plant Structures	46,411	-	46,411
23	Leasehold Improvements	-	-	-
24	Office Furniture and Improvements	9,381	-	9,381
25	Warehouse Equipment	193	-	193
26	Tools, Shop and Garage Equipment	8,362	-	8,362
27	Laboratory Equipment	2,103	-	2,103
28	Power Operated Equipment	3,234	-	3,234
29	Communication Equipment	16,468	-	16,468
30	Miscellaneous Equipment	768	-	768
31	Total Plant in Service - Actual	1,656,478 x	-	1,656,478
32	Pro-forma Adjustment - Post TY Plant	-	-	-
33	Accumulated Depreciation, Retired Plant	-	-	-
34	Total Plant in Service - Adjusted	\$ 1,656,478	\$ -	\$ 1,656,478
35	Less: Accumulated Depreciation - Actual	\$ (627,369) x	-	(627,369)
36	Less: Accumulated Depreciation - Post TY	3,125	-	3,125
37	Less: Accumulated Depreciation - 12 Mos TY	-	-	-
38	Less: Accumulated Depreciation - Retired Plant	-	-	-
39	Total Accumulated Depreciation - Adjusted	\$ (624,244) x	\$ -	\$ (624,244)
40	Plus: Construction Work In Progress	-	-	-
41	Net Plant in Service	\$ 1,032,234 x	\$ -	\$ 1,032,234
<u>LESS:</u>				
42	Advances in Aid of Construction (AIAC)	\$ (36,395) x	\$ -	(36,395)
43	Contributions in Aid of Construction (CIAC)	(41,263) x	-	(41,263)
44	Less: Accumulated Amortization	10,797 x	-	10,797
45	Net CIAC (L25 - L26)	(30,466) x	-	(30,466)
46	Total Advances and Contributions	(66,861) x	-	(66,861)
47	Customer Deposits	-	-	-
48	Meter Advances	-	-	-
49	Deferred Income Tax Credits	(157,495) x	-	(157,495)
<u>ADD:</u>				
50	Working Capital Allowance	(4,209) x	(10,079)	(14,288)
51	Phoenix Office Allocation	42,706 x	-	42,706
52	Meter Shop Allocation	792 x	-	792
53	Projected Capital Expenditures	-	-	-
54	Deferred Debits	-	-	-
55	Other Additions	-	-	-
56	Total Rate Base	\$ 847,167	\$ (10,079)	\$ 837,088

OPERATING INCOME - TEST YEAR AND STAFF PROPOSED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
<u>REVENUES:</u>						
1	Total Operating Revenues	\$ 412,203	\$ -	\$ 412,203	\$ 62,029	\$ 474,232
<u>EXPENSES:</u>						
Source of Supply Expenses:						
2	Purchased Water	\$ 162,114	\$ -	\$ 162,114	\$ -	\$ 162,114
3	Other	316	-	316	-	316
Pumping Expenses:						
4	Purchased Power	2,976	-	2,976	-	2,976
5	Purchased Gas	-	-	-	-	-
6	Other	14,594	-	14,594	-	14,594
7	Water Treatment Expenses	3,443	-	3,443	-	3,443
8	Transmission and Distribution Expenses	38,687	-	38,687	-	38,687
9	Customer Account Expenses	27,613	-	27,613	145	27,758
10	Sales Expenses	142	-	142	-	142
11	Administrative and General Expenses	45,617	(465)	45,152	-	45,152
12	Total Operation and Maintenance	\$ 295,502	(465)	295,037	145	295,182
13	Depreciation and Amortization	39,981	-	39,981	-	39,981
15	Ad Valorem (Property)	27,099	(1,547)	25,552	-	25,552
Taxes:						
14	Federal & State Income Tax	11,165	206	11,371	23,886	35,257
16	Other	3,759	-	3,759	-	3,759
17	Total Operating Expenses	\$ 377,506	\$ (1,807)	\$ 375,699	\$ 24,032	\$ 399,731
18	Operating Income (Loss)	\$ 34,697	\$ 1,807	\$ 36,504	\$ 37,997	\$ 74,501

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1	[C] ADJ #2	[D] ADJ #3	[E] ADJ #4	[F] ADJ #5	[G] ADJ #6	[H] STAFF ADJUSTED
REVENUES:									
1	Total Operating Revenues	\$ 412,203 x	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 412,203
EXPENSES:									
Source of Supply Expenses:									
2	Purchased Water	\$ 162,114	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 162,114
3	Other	316	-	-	-	-	-	-	316
Pumping Expenses:									
4	Purchased Power	2,976	-	-	-	-	-	-	2,976
5	Purchased Gas	-	-	-	-	-	-	-	-
6	Other	14,594	-	-	-	-	-	-	14,594
7	Water Treatment Expenses	3,443	-	-	-	-	-	-	3,443
8	Transmission and Distribution Expenses	38,687	-	-	-	-	-	-	38,687
9	Customer Account Expenses	27,613	-	-	-	-	-	-	27,613
10	Sales Expenses	142	-	-	-	-	-	-	142
11	Administrative and General Expenses	45,617	(319)	(146)	-	-	-	-	45,152
12	Total Operation and Maintenance	295,502 x	(319)	(146)	-	-	-	-	295,037
13	Depreciation and Amortization	39,981	-	-	-	-	-	-	39,981
15	Ad Valorem (Property)	27,099	-	-	(1,547)	-	-	-	25,552
Taxes:									
14	Federal & State Income Tax	11,165	-	-	-	(438)	644	-	11,371
16	Other	3,759	-	-	-	-	-	-	3,759
17	Total Operating Expenses	\$ 377,506 x	\$ (319)	\$ (146)	\$ (1,547)	\$ (438)	\$ 644	\$ -	\$ 375,699
18	Operating Income (Loss)	\$ 34,697 x	\$ 319	\$ 146	\$ 1,547	\$ 438	\$ (644)	\$ -	\$ 36,504

OPERATING INCOME ADJUSTMENT NO. 3 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENT	(C) STAFF AS ADJUSTMENT
1	2001 Annual Gross Revenues			\$ 414,383
2	2002 Annual Gross Revenues			\$ 435,154
3	2003 Annual Gross Revenues			\$ 412,203
4	Plus Staff's Recommended Increase			\$ 62,029
5	Subtotal (Lines 1 + 2 + 3 + 4)			\$ 1,323,769
6	Three Year Average Calculation			3
7	Three Year Average (Line 5 / Line 6)			\$ 441,256
8	Department of Revenue Multiplier			2
9	Revenue Base Value (Line 7 x Line 8)			\$ 882,513
10	Plus: 10% of 2001 CWIP			3
11	Less: Net Book Value of Leased Vehicles (See Note A Below)			\$ 664
12	Full Cash Value (Line 9 + Line 10 - Line 11)			\$ 881,852
13	Assessment Ratio			0.25
14	Assessed Value (Line 12 x Line 13)			\$ 220,463
15	Composite Property Tax Rate (See Note B Below)			0.1159
16	Staff Proposed Property Tax Expense (Line 14 x Line 15)	\$ 27,099	\$ (1,547)	\$ 25,552

Note A: Net Book Value of Licensed Vehicles provided by Arizona Water.

Note B: Property tax rate provided by Arizona Dept. of Revenue.

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OPERATING INCOME ADJUSTMENT NO. 4 and 5 - INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	(A)	(B)	(C)
		COMPANY AS FILED	STAFF ADJUSTMENT	STAFF AS ADJUSTED
1	Federal Income Taxes	\$ 9,756	\$ (438)	\$ 9,318
2	State Income Taxes	1,409	644	2,053
3	Total Income Taxes	<u>\$ 11,165</u>	<u>\$ 206</u>	<u>\$ 11,371</u>

RATE DESIGN

Monthly Usage Charge:

	Minimum Monthly Usage Charge		
	Present Rates	---Proposed Rates---	
		Company	Staff
5/8" x 3/4" Meter	\$ 18.02	\$ 21.90	\$ 21.00
1" Meter	\$ 46.61	\$ 55.63	\$ 52.00
2" Meter	\$ 140.87	\$ 173.20	\$ 170.00
3" Meter	\$ 155.37	\$ 250.63	\$ 220.51
4" Meter	\$ 207.16	\$ 384.36	\$ 286.45
6" Meter	\$ 492.01	\$ 818.64	\$ 335.79
8" Meter	\$ 621.48	\$ 1,203.00	\$ 625.36
10" Meter	\$ 673.27	\$ 1,687.41	\$ 837.19

Gallons Included in Minimum Charge:

5/8" x 3/4" Meter	1,000	0	0
1" Meter	1,000	0	0
2" Meter	1,000	0	0
3" Meter	1,000	0	0
4" Meter	1,000	0	0
6" Meter	1,000	0	0
8" Meter	1,000	0	0
10" Meter	1,000	0	0
Fire Hydrants Used For Construction Water	1,000	0	0

Commodity Rates : 5/8 x 3/4 Meter

Per 1,000 Gallons (In Excess of Minimum)	\$ 5.4560	N/A	N/A
Per 1,000 Gallons for 0 to 3,000 Gallons	\$ 5.4560	\$ 5.7450	\$ 4.5000
Per 1,000 Gallons for 3,001 to 10,000 Gallons	\$ 5.4560	\$ 5.7450	\$ 5.5000
Per 1,000 Gallons for Gallons in Excess of 10,000	\$ 5.4560	\$ 5.7450	\$ 6.5000

Commodity Rates for 1 Inch and 2 Inch Meters

Per 1,000 Gallons (In Excess of Minimum)	\$ 5.4560	N/A	N/A
Per 1,000 Gallons for 0 to 25,000 Gallons	\$ 5.4560	\$ 5.7450	\$ 5.5000
Per 1,000 Gallons for Gallons in Excess of 25,000	\$ 5.4560	\$ 5.7450	\$ 6.5000

Service Line and Meter Installation Charge:

5/8" x 3/4" Meter	(a)	(a)	(a)
1" Meter	(a)	(a)	(a)
2" Meter	(b)	(b)	(b)
3" Meter	(b)	(b)	(b)
4" Meter	(b)	(b)	(b)
6" Meter	(b)	(b)	(b)

(a) No charge for 5/8" and 1" if on existing pipelines. Full cost for 5/8" and 1" if on new pipelines.

(b) Full cost for 2" and larger if on existing or new pipelines.

**RATE DESIGN
CONTINUED**

Service Charges:

	Present Rates	---Proposed Rates---	
		Company	Staff
Establishment	\$ 16.00	\$ 16.00	\$ 16.00
Guarantee Deposit	(c)	(c)	(c)
Reconnection for Delinquency (per disconnection)	\$ 16.00	\$ 16.00	\$ 16.00
Re-establishment	(d)	(d)	(d)
Service Call Out (After Regular Working Hours Only)	\$ 35.00	\$ 35.00	\$ 35.00
Returned Check Charge	\$ 10.00	\$ 25.00	\$ 25.00
Meter Re-read (After Regular Working Hours Only)	\$ 35.00	\$ 35.00	\$ 35.00
Meter Test	\$ 50.00	\$ 50.00	\$ 50.00
Late Charge	N/A	(e)	(e)

(c) Per Commission Rule A.A.C. R14-2-403B

(d) Eight (8) times the customer's monthly minimum charge,
or payment of the minimums since disconnection, whichever is less.

N/A No current tariff.

(e) 1.5 percent after 15 days